Celltech Group plc Annual Report and Accounts 2002

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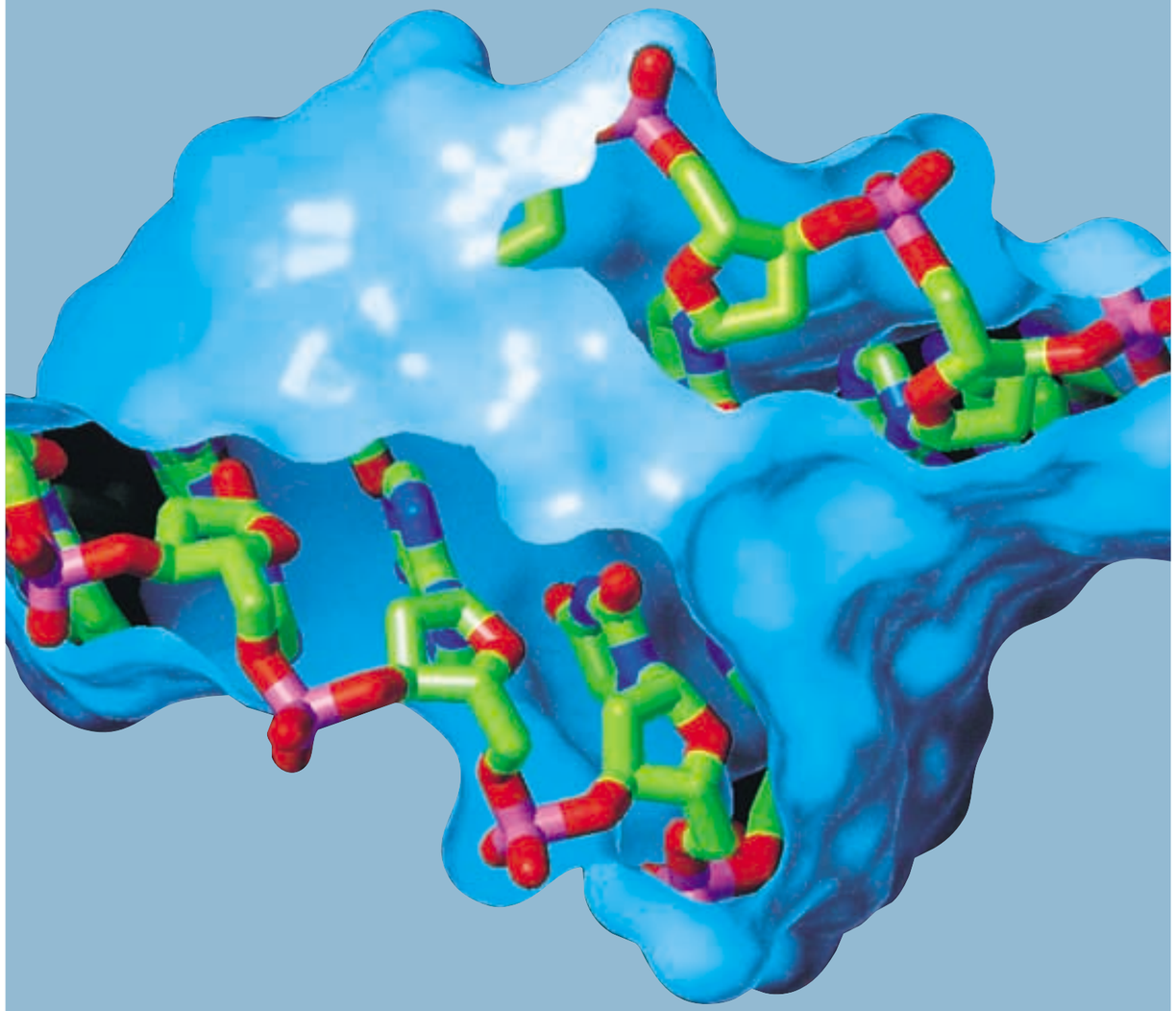
CELLTECH



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Corporate Strategy

Celltech is a European biotechnolgy leader, with a substantial long-term commitment to internationally competitive drug discovery and development, sustained by revenues from its profitable and cash-generative pharmaceutical business. Celltech is focused on maximising value retention from its products, whilst maintaining an appropriate risk/reward profile. This approach includes partnering for strength with major pharmaceutical or biotechnology companies, where Celltech retains co-marketing rights, profit sharing arrangements or substantial royalties. With its extensive late-stage product pipeline and strong financial profile, Celltech believes it has excellent prospects for sustained growth, driving its goal of becoming a global biotechnology leader.

2002 highlights

Financial results

- Product sales and royalties - £329.6 million (+9%)
- Net pre-tax profit (pre-goodwill amortisation and 2001 restructuring charges) - £50.4 million (+5%). Excluding other income, net profit grew by 46%
- Earnings per share (pre-goodwill amortisation and 2001 restructuring charges) - 15.5p (+8%)
- Year end cash and liquid resources - £105.1 million

Product pipeline

- CDP 870
  Phase III programme in rheumatoid arthritis initiated by Pharmacia, triggering a $10 million milestone payment to Celltech

  Encouraging Phase II results announced in Crohn's disease, including the identification of C-reactive protein as a marker for response to treatment with CDP 870

- Early stage pipeline
  Excellent progress with early stage portfolio, including the entry of CDP 323, a novel oral treatment for inflammatory diseases, into preclinical development

Pharmaceutical business

- Product sales - £252.9 million (+5%)
- Acquisition of Dipentum from Pharmacia, for the treatment of inflammatory bowel diseases, and establishment of a specialist gastroenterologist-focused sales force in the US
- Positive head-to-head trial results from a comparison of Metadate CD and Concerta, confirming Metadate's more rapid onset of action in ADHD patients.

Left to right:
J B H Jackson
Chairman
Dr P J Fellner
Group Chief Executive

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Chairman's and Chief Executive's Statement

The past year has seen Celltech achieve advances across all areas of its operations, and also record a strong financial performance, with net pre-tax profit before exceptional items increasing to £50.4 million. Importantly the profit arising from its operating business, excluding Research and Development (R&D) milestone payments and exceptional items, increased by 46%. This financial strength continues to successfully sustain Celltech's business model, which is centred upon undertaking long-term innovative R&D at an internationally-competitive level, supported by the revenues from its cash-generative pharmaceutical operations.

R&D pipeline

Significant progress has continued with Celltech's promising development pipeline, comprised of products addressing large market opportunities, which in most cases are being developed with high-quality pharmaceutical partners. The pipeline currently has 10 products in development, addressing serious or life-threatening diseases, including six products which are in Phase II or Phase III clinical studies.

Additionally, the number of innovative products in early-stage clinical and pre-clinical development doubled during 2002, as output has accelerated from Celltech's extensive discovery programmes.

The rapid progress seen in both Celltech's antibody-based and small molecule programmes is being reinforced by leading-edge technologies acquired or accessed during the past two years. These include Celltech's SLAM (Selected Lymphocyte Antibody Method) technology, which rapidly identifies very high affinity antibodies, and which has significant advantages over other current technologies, and also the extensive ultra-high throughput small molecule lead identification programmes conducted in collaboration with Neogenesis.

Pharmaceutical business and royalties

Celltech has further reinforced its US and European pharmaceutical operations, both by product acquisition and by focusing sales into specialist areas. During 2002 it acquired the product Dipentum from Pharmacia, for the treatment of inflammatory bowel diseases, which Celltech has now re-launched in the US and in European markets. It has established a 30-strong specialist gastroenterology sales force in the US, while reducing its primary care sales force in size. It has also set up a specialist-focused pharmaceutical sales and marketing organisation in the Nordic region. Overall, pharmaceutical product sales continued to advance, amounting to £253 million during the year.

Celltech's royalty stream, arising mainly from its widely-used antibody technology, continued to grow significantly, with total royalties increasing by 25% to almost £77 million.

Board and management

The current year will see extensive change in the Board and management of Celltech.

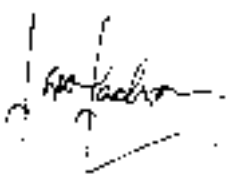
The Board of Celltech has identified its new Chief Executive Officer who is expected to join Celltech in April 2003.

Mr John Jackson, who has served as Chairman of Celltech for over 20 years, throughout its evolution from a small early-stage research-based company into one of the largest European biotechnology companies, will retire as Chairman during April 2003. He will be succeeded in this role by Dr Peter Fellner, who will relinquish his role as Chief Executive Officer upon the arrival of the new Chief Executive Officer.

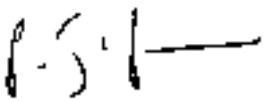
A series of planned changes has begun amongst Celltech's Non-Executive Directors. Mr John Baker, who has served as a Deputy Chairman during the past three years, will retire from Celltech's Board at the forthcoming Annual General Meeting (AGM) in May, and Mr Hugh Collum, who has also served as a Deputy Chairman since 1999, plans to retire from the Board in July. The Board thanks them both for their valuable contributions, during a demanding period in which the Company has achieved substantial growth.

Mr Philip Rogerson (58) was elected to the Board in March 2003, and it is planned that he will be appointed as Senior Independent Director following the AGM in May. He will also be joining the Remuneration and Audit Committees. Mr Rogerson has an extensive background in finance, including a period as Chief Financial Officer of British Gas, and is currently Chairman of several substantial companies, including Viridian Group plc and Aggreko plc.

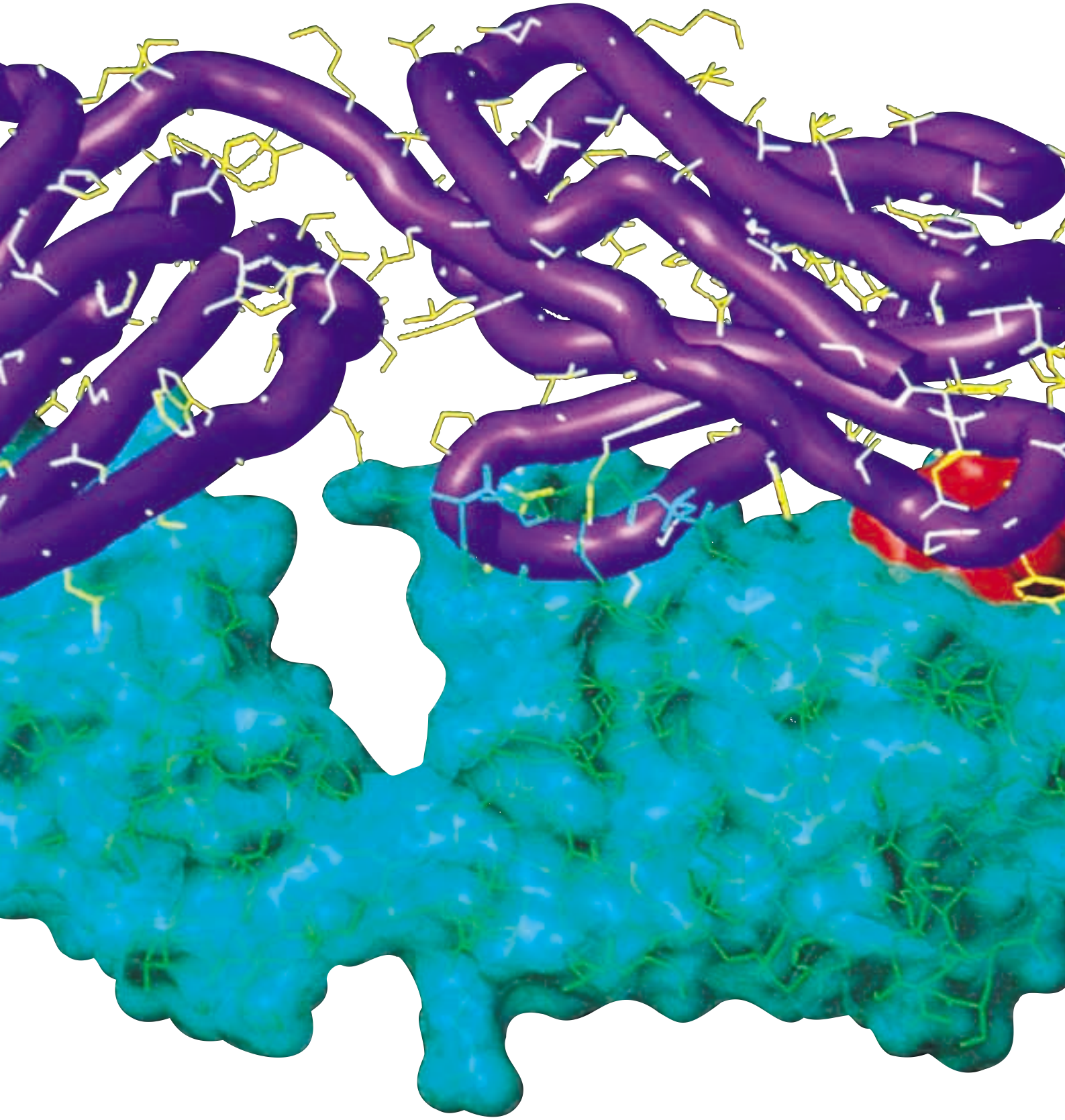
Throughout the past year, Celltech's market environment has continued to be difficult and demanding. Celltech's Board would like to thank its very high-quality staff for their consistent commitment and contribution, which has underpinned the Company's successful progress.

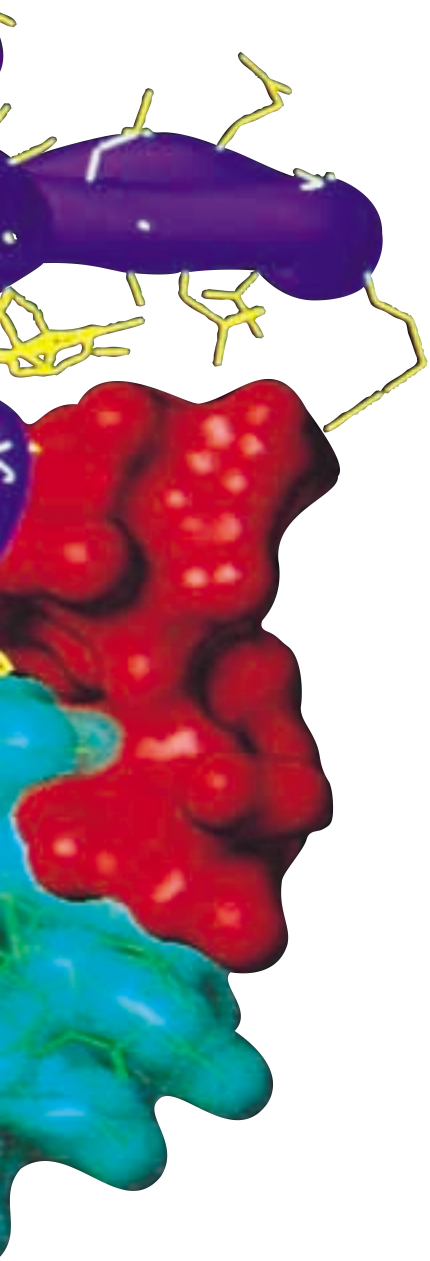


John Jackson
Chairman



Dr Peter Fellner
Chief Executive





Group Overview

New Product Development

A key component of Celltech's strategy is the creation of substantial new value through the progression of its innovative development pipeline. Celltech's financial strength and extensive clinical development capabilities are critical to maximising the value from this pipeline, since together they allow Celltech to pursue products to a later stage of development before considering partnering, thereby enhancing the returns the company can achieve. Celltech also seeks commercial input from its pharmaceutical business at an early stage to ensure that the programmes are optimised to deliver a compelling commercial profile.

Partnering remains a key element of Celltech's strategy, in particular to access technical or commercial expertise that the company does not possess. In addition, these collaborations help to manage the risk/reward balance when pursuing a large portfolio of innovative products through R&D funding and milestone income. In the current business environment, it is possible to enter into genuinely collaborative agreements, where Celltech's ongoing expert contribution continues to add value to the development of these products.

For Celltech's antibody-based products, its microbial manufacturing technology, underpinned by strategic manufacturing alliances, provides a very competitive cost structure, together with substantial flexibility in product scheduling.

The extensive progress with Celltech's innovative product pipeline is exemplified by its PEGylated anti-TNFα antibody fragment CDP 870, being developed in collaboration with Pharmacia. This product is expected to have a highly competitive profile in this rapidly-growing biologicals market. It entered Phase III studies in rheumatoid arthritis in October 2002. Celltech is also developing CDP 870 as a new treatment for Crohn's disease.

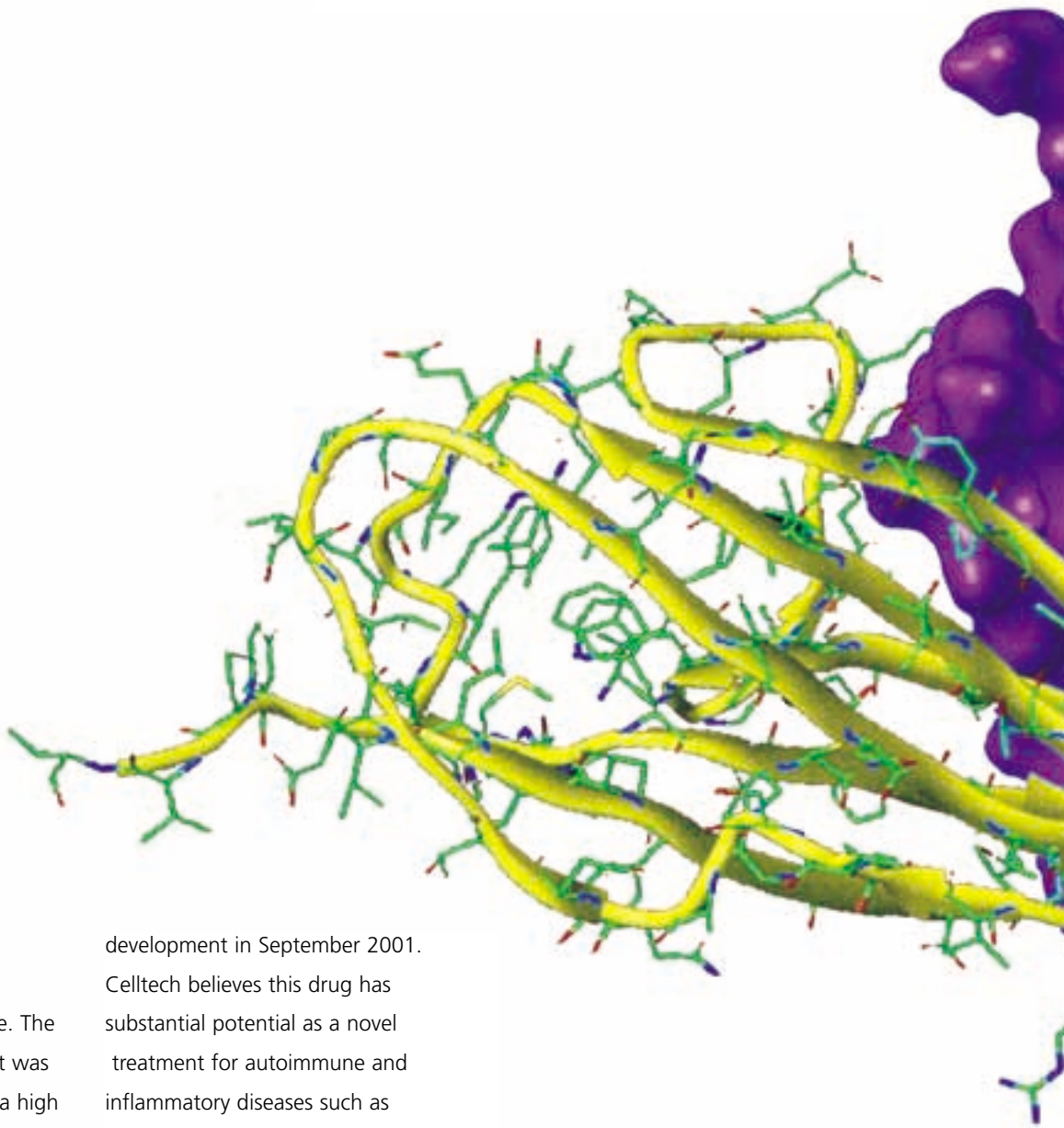
Group Overview

Research Programmes

Celltech has built an exceptional discovery organisation, with 450 scientific and support staff dedicated to the identification of novel drug candidates with substantial commercial potential. In order to maximise the effectiveness of its resources, Celltech's research is focused on immune and inflammatory disorders and oncology.

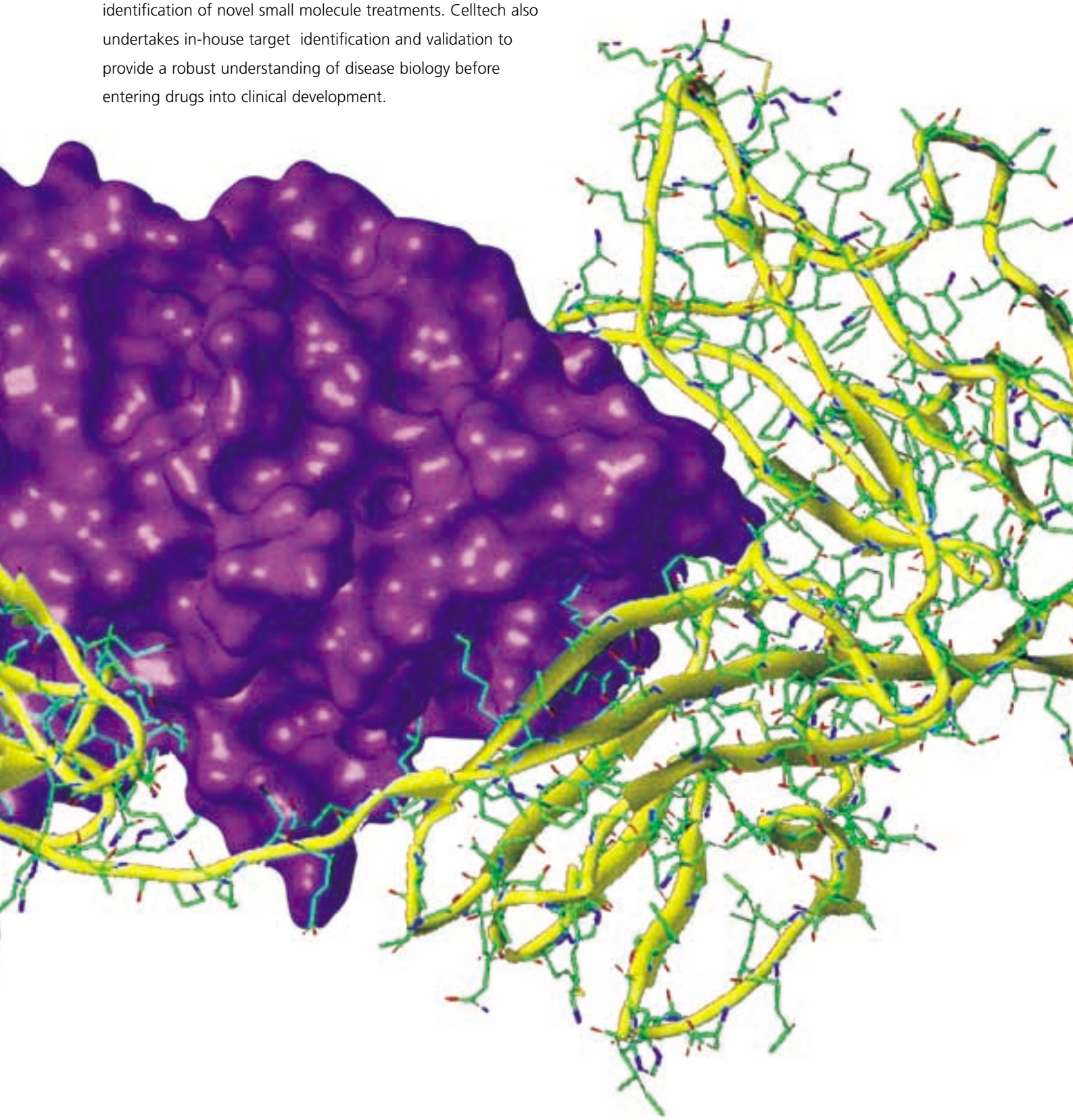
Celltech operates a dual-pipeline strategy encompassing both antibody and small molecule (NCE) approaches, facilitating multiple points of intervention when addressing a disease pathway. In particular, many protein interactions can only be antagonised using a large molecule such as an antibody, whereas intracellular drug targets are best addressed by NCE approaches.

Celltech is committed to maintaining its innovative technology platform, which provides substantial competitive advantage across the entire discovery and development process. In the area of antibody therapeutics, Celltech has world-leading capabilities, including its PEGylated antibody fragment



Celltech's innovative technology platform is exemplified by its interleukin-1β research programme. The intellectual property for this target was acquired in November 2000, with a high affinity PEGylated antibody fragment CDP 484 being entered into development in September 2001. Celltech believes this drug has substantial potential as a novel treatment for autoimmune and inflammatory diseases such as rheumatoid arthritis, and will start clinical development during 2003.

platform, its microbial manufacturing system, SLAM, for rapid generation of antibodies and, through its collaboration with Seattle Genetics, access to antibody-targeted toxin technology. Celltech's strong NCE research capabilities have been enhanced by access to Neogenesis' screening technology, accelerating identification of novel small molecule treatments. Celltech also undertakes in-house target identification and validation to provide a robust understanding of disease biology before entering drugs into clinical development.



Group Overview

Celltech Pharmaceuticals

Celltech Pharmaceuticals, the Company's international sales, marketing and manufacturing arm, performs two important roles for the Group. Firstly, the existing primary care-focused business provides the cashflows that enable the Group to support its substantial investment in innovative R&D. Secondly, the pharmaceutical business provides a robust platform upon which to build specialist-focused capabilities for the marketing of certain pipeline products. Celltech's ability to market specialist products through its pharmaceutical business, either with or without a partner, will allow it to retain more value from its innovative R&D programmes.

A key focus for the pharmaceutical business is the optimisation of its primary care business, in particular through product line extensions and careful management of its cost base. The longer-term goal is the establishment of specialist marketing capabilities and opinion leader relationships in the gastrointestinal area, ultimately to market products such as CDP 870 for Crohn's disease, in addition to the selective acquisition of new specialist-focused products.

The pharmaceutical business also provides valuable input to Celltech's R&D programmes, ensuring these are developed to optimise their commercial potential.

Celltech continues to expand its European coverage, with the acquisition of a German sales and marketing organisation during 2001 and the establishment of operations in the Nordic region during 2002.

The establishment of specialist-focused marketing capabilities in the gastrointestinal (GI) area has been accelerated during 2002 with the acquisition from Pharmacia of Dipentum, a treatment for ulcerative colitis. Celltech began retailing this product in Europe in the third quarter of 2002 and in early 2003 in the US. This product was also reintroduced to the GI community at a major US conference in October 2002.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Development Portfolio

Product	Product description	Clinical indication
Immune and inflammatory		
CDP 571	Anti-TNFα antibody	Crohn's disease
CDP 870	Anti-TNFα antibody fragment	Rheumatoid arthritis Crohn's disease
PDE4	PDE4 inhibitor	Asthma COPD
CDP 484	Anti-IL-1β antibody fragment	Rheumatoid arthritis
CDP 323	α4 integrin antagonist	Inflammatory disease
Oncology		
Mylotarg	Anti-CD33 antibody-calicheamicin conjugate	Acute myeloid leukaemia (first line combination therapy)
BMS-275291	Matrix metalloproteinase inhibitor	Non-small cell lung cancer
CDP 860	Anti-PDGFβ receptor antibody fragment	Cancer
CMC-544	Anti-CD22 antibody-calicheamicin conjugate	Non-Hodgkin's lymphoma
CDP 791	Anti-GFR antibody fragment	Cancer

Development-stage collaborations

Celltech has a long-established strategy of partnering for strength with large pharmaceutical and biotechnology companies who are leaders in their particular field.

These arrangements are a key component in managing the balance of risk and reward in developing a broad pipeline of innovative products, in particular through the development

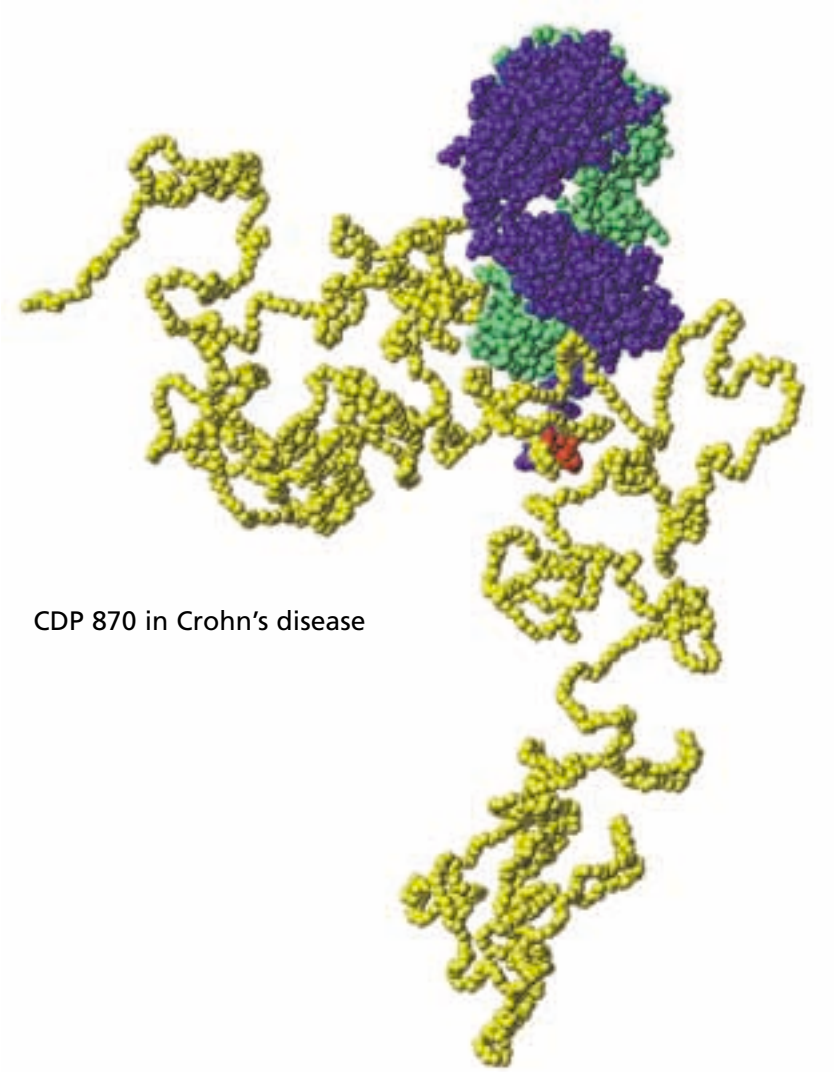
	Pharmacia	Merck
Collaboration date	March 2001	September 1994
Collaboration area	CDP 870	PDE4 inhibitors
Disease area(s)	Rheumatoid arthritis, Inflammatory bowel disease	Respiratory disease
Financial terms:		
Co-development	◯	
Co-promotion	◯	
Profit sharing	◯	◯
Milestone payments	◯	◯
Royalties	◯	◯
Other	Royalties on sales outside co-promotion territories (US, Europe, Japan) and indications outside RA / IBD	Celltech option to co-fund Phase III development and receive share of profits

	Partner	Preclinical	Phase I	Phase II	Phase III
	Biogen				○
	Pharmacia				○
				○	
	Merck			○	
				○	
	–	○			
	–	○			
	Wyeth			○	
	Bristol-Myers Squibb			○	
	–			○	
	Wyeth	○			
	–	○			

and commercialisation expertise each collaborator brings, in addition to important R&D funding. Celltech seeks to incorporate co-marketing and profit sharing elements into its collaborations, enabling retention of greater value from its pipeline products than through traditional outlicensing deals.

	Biogen	Bristol-Myers Squibb	Wyeth
	April 2002	February 1998	May 1991
	CDP 571	Matrix metalloproteinase inhibitors	Antibody-targeted cytotoxic agents
	Inflammatory bowel disease, psoriasis	Oncology	Oncology
	○		○
	○		
	○		
	○	○	
		○	○

Celltech's R&D programmes have advanced significantly in all of the therapeutic areas in which it is engaged. CDP 870 and the Merck PDE4 inhibitor programme, which are key mid-term growth drivers for Celltech, have continued to progress well, with Celltech's growing research productivity illustrated by the entry into preclinical development of CDP 323, a novel new oral treatment for inflammatory diseases. Celltech's early stage pipeline has expanded, with four products scheduled to enter Phase I studies during 2003. Celltech's world-leading technology platform has been further enhanced by access to Seattle Genetics' novel toxin and linker technology.



CDP 870 in Crohn's disease

New product development

Autoimmune disease

The immune system comprises a complex network of cells and tissues whose primary function is to seek out and eliminate pathogens such as bacteria and viruses. Autoimmune diseases result when the immune system recognises a normal component of the body. A typical immune response directed at a pathogen stops once this has been eliminated. In autoimmune diseases the response can carry on for many years, often until the entire target has been destroyed, for example in rheumatoid arthritis, where the immune system recognises a joint component leading to inflammation and eventual joint destruction. Autoimmune diseases represent an increasing class of medical conditions that afflict many people worldwide. Celltech is actively researching treatments for diseases such as rheumatoid arthritis (RA), inflammatory bowel disease (IBD), psoriasis and multiple sclerosis (MS).

Celltech has identified that C-reactive protein (CRP), a commonly used marker of active inflammation, helps identify Crohn's disease patients who respond best to treatment with CDP 870. Patients with elevated CRP levels at initiation of treatment, representing an inflammatory disease episode, were found to respond significantly better to CDP 870 than those with normal CRP levels. Patients with

Antibody approaches for inflammatory disorders

Celltech has a long-established interest in anti-cytokine approaches, such as anti-TNFα antibodies, as novel treatments for inflammatory disorders. Biological treatments targeting TNFα have rapidly become the gold standard for treatment of severe inflammatory conditions such as RA and Crohn's disease, with total sales of anti-TNFα products reaching over $2 billion in 2002. Substantial further growth is predicted for this market segment, driven by the entry of new therapies with superior dosing characteristics, increased penetration of existing markets, and utility in other inflammatory diseases such as psoriasis. Notwithstanding the impact of these therapies, a significant number of patients show no response or only partial response to treatment with anti-TNFα agents. It is believed that other cytokines such as IL-1β may drive the disease pathogenesis in these patients. Celltech has a number of anti-cytokine programmes, including CDP 484, an antibody fragment targeting IL-1β and a number of programmes in late-stage research, which aim to address the anti-TNFα therapy non-responders.

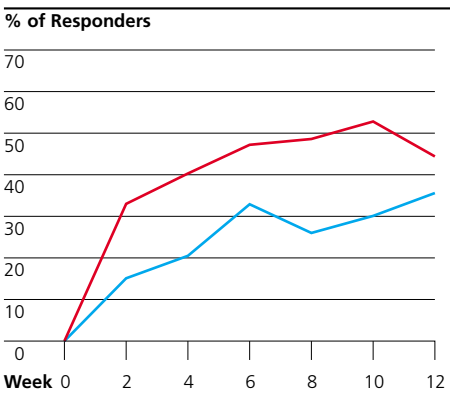
CDP 870

Celltech's leading product using its proprietary PEGylated antibody fragment technology, CDP 870, represents the next generation of anti-TNFα therapies. CDP 870, a humanised anti-TNFα antibody fragment, is being developed as a treatment for both RA and Crohn's disease through a major collaboration with Pharmacia.

Phase II data in RA presented in 2001 highlighted that CDP 870 has a fully competitive efficacy and safety profile at the 400mg dose, with a convenient four-weekly subcutaneous dosing schedule. During the first half of 2002, Pharmacia developed a new lyophilised formulation of the drug, which will be used for Phase III studies and eventual in-market supply. This new formulation, along with Phase II data and outline Phase III clinical plans, were agreed with the FDA in July 2002. Pharmacia initiated Phase III dosing for RA in October 2002, triggering a $10 million milestone payment to Celltech. The Phase III programme, involving 1,500 treated patients, will investigate the safety and efficacy of CDP 870 as both monotherapy and in combination with additional disease modifying drugs. These studies, in which patients will be treated for up to 12 months, will evaluate the effect of CDP 870 on both signs and symptoms, using the American College of Rheumatology (ACR) clinical scoring system, and disease progression, using x-ray techniques to measure improvements in the rate of joint destruction.

Separately, Celltech is developing CDP 870 in Crohn's disease. Following the announcement of positive Phase II data in February 2002, Celltech has carried out further analysis to identify the patient groups who will receive most benefit from treatment. This resulted in elevated baseline CRP levels demonstrated a rapid and sustained response to treatment with CDP 870, with 42% achieving disease remission by week 10 of the study.

These findings should enable physicians to target CDP 870 towards those patients most likely to show a positive response to the drug and will be incorporated into the Phase III development programme.

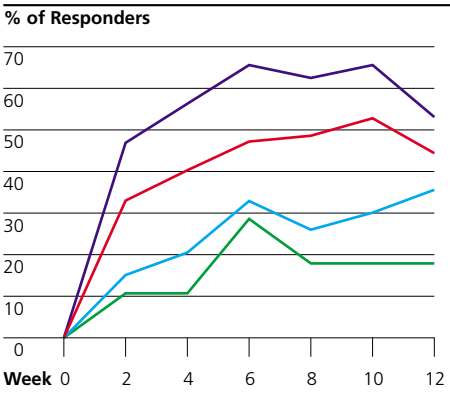


All trial patients

The chart shows response rates for all patients in the CDP 870 Phase II Crohn's disease trial, with a rapid and significant response in the treated group.

CDP 870 400mg 4-weekly all patients (n = 72)

Placebo 4-weekly all patients (n = 73)



Patients with elevated CRP levels

The chart shows the data stratified for those patients with elevated CRP levels (i.e. ≥10 mg/L) at baseline, showing a substantially enhanced treatment related benefit and reduced placebo response.

CDP 870 400mg 4-weekly all patients (n = 72)

Placebo 4-weekly all patients (n = 73)

CDP 870 400mg 4-weekly CRP≥10 (n=31)

Placebo 4-weekly CRP≥10 (n=28)

the identification of C-reactive protein (CRP) as a marker for response, with those patients having elevated baseline CRP levels showing significantly enhanced treatment benefit, detailed further in the panel on page 10. Celltech intends to use this information, along with input from gastrointestinal opinion leaders, to select the optimum trial design and dosing regimen for Phase III trials. Celltech plans to discuss its Phase III plans with the FDA in the first half of 2003, with trials scheduled to commence in mid-2003. The current intention is to simultaneously file RA and Crohn's disease indications for registration.

Celltech's collaboration with Pharmacia provides for Celltech to have co-development and co-marketing rights in the US, EU and Japan, with Celltech earning a share of the profits arising from product sales in RA and Crohn's disease from these territories. In other territories and indications, Celltech will receive a royalty on product sales. In addition, Celltech has received milestone payments to date of $60 million, with a further $220 million dependent upon the attainment of certain future events. Celltech has co-funding obligations for the development of CDP 870 in RA above an agreed threshold, which will be triggered during 2003. Celltech is responsible for the costs of developing CDP 870 in Crohn's disease, subject to a one-off contribution from Pharmacia towards these costs made at the time of the collaboration. The terms of this collaboration will be unchanged following the planned acquisition of Pharmacia by Pfizer.

CDP 571

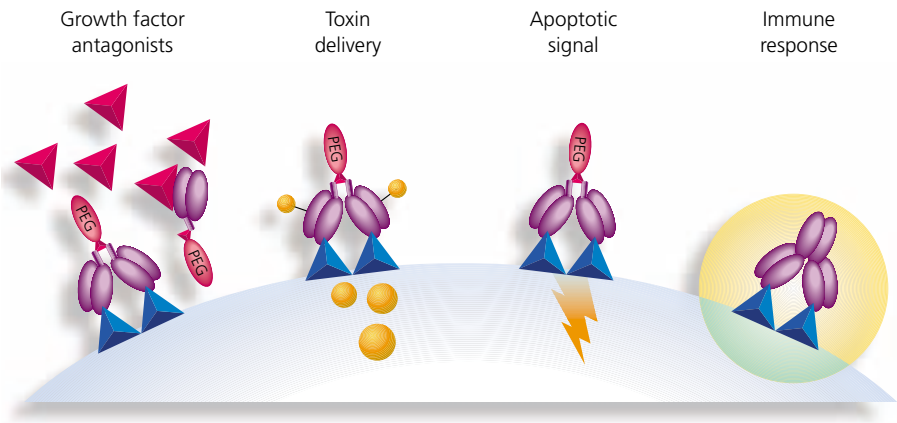
Celltech announced results in July 2002 from two large Phase III studies in Crohn's disease using its humanised anti-TNFα antibody CDP 571. The main study evaluated the ability of CDP 571 to induce and maintain remission in patients with active Crohn's disease. For the primary endpoint, assessing response at 28 weeks, CDP 571 showed significant benefit when using a per protocol analysis, but not when looking at the intent-to-treat population. However, significant treatment-related benefit was seen at the acute endpoints (weeks two and four) using the clinical endpoint of ≥100 point reduction in the Crohn's disease activity index (CDAI) score and/or disease remission (CDAI ≤150), highlighting its potential use in acute disease for the management of disease flares.

The Phase III studies also confirmed that CDP 571 had low immunogenicity and an excellent safety profile, with no significant differences in adverse events between the treated group and those taking the placebo.

Celltech is currently assessing the extent of commercial opportunity for CDP 571, including its use on a named-patient basis. Celltech intends to pursue discussions with

Celltech: focus on oncology

The use of antibodies as oncology drugs



Celltech is using its antibody fragment platform to develop both cytostatic approaches for the treatment of cancer, such as its anti-GFR project CDP 791 and its anti-CSF-1 programme, and cytotoxic approaches, using the toxin and linker technology licensed from Seattle Genetics.

SLAM technology allows Celltech to sample a much larger repertoire of the immune response. Using SLAM it is possible to isolate both antagonist and agonist antibodies with extremely high affinities for their target, as well as internalising antibodies that can deliver toxic payloads.

Oncology remains an area of medicine with significant unmet need, with current treatments being limited by treatment toxicities, drug resistance mechanisms or responses only in subsets of patient groups. Celltech is pursuing antibody-based approaches, using its flexible PEGylated antibody fragment platform to facilitate a range of different mechanistic approaches, as well as small molecule approaches

regulatory authorities regarding the data package required for acute or as needed usage. It is anticipated that Celltech will review its licensing arrangements for CDP 571, including the existing collaboration with Biogen, following these meetings.

CDP 484

Interleukin-1β (IL-1β) is a cytokine associated with pain, joint destruction and inflammation. In models of arthritis, antibodies to IL-1β have shown significant therapeutic effects on both clinical scores of inflammation and joint erosion in established disease. Antibodies targeting IL-1β may therefore have the potential to offer the anti-inflammatory activity of other anti-cytokine approaches with enhanced joint protection, with the long circulating half-life expected to overcome pharmacokinetic limitations of competitor approaches.

Celltech entered a high-affinity humanised anti-IL-1β antibody fragment, CDP 484, into development in late 2001. The product is expected to have similar dosing characteristics to CDP 870, and high manufacturing yields have been obtained. The first clinical indication will be rheumatoid arthritis, where CDP 484 will be explored both for efficacy in non-responders to anti-TNFα therapy, in addition to first line therapy. Celltech expects to enter CDP 484 into Phase I trials in mid-2003.

Small molecule approaches for inflammatory diseases

Celltech is pursuing a number of small molecule approaches for the treatment of inflammatory disease, both in-house and through collaborations with major pharmaceutical companies. These programmes, which are complementary to anti-cytokine antibody approaches, leverage Celltech's deep understanding of key inflammatory disease pathways, and are focused on several key target classes, including integrins, kinases and chemokines. Celltech intends to develop potent and selective small molecule anti-inflammatory agents with a superior therapeutic window to current treatments.

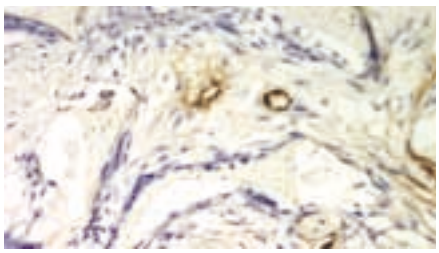
CDP 323

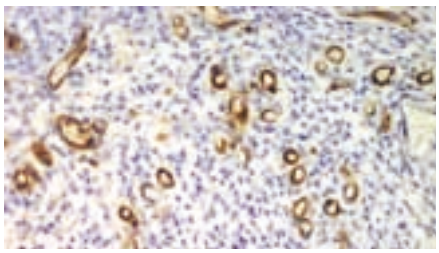
Celltech has been researching for a number of years the utility of α4 integrin inhibitors as improved disease modifying drugs that are potent anti-inflammatory agents, but which lack the adverse long-term side effect profiles of existing drugs. α4 integrins are involved in the recruitment of leukocytes to areas of inflammation such as those found in joints, central nervous system and gut, highlighting the potential utility of this class of drugs in treating RA, MS and IBD.

During 2002 Celltech entered CDP 323, an orally active antagonist of α4 integrins, into preclinical development. This potent inhibitor

using its extensive kinase expertise, in addition to the high-throughput screening afforded through its collaboration with Neogenesis. SLAM technology affords the possibility of isolating very high affinity human anti-tumour antibodies directly from patients with interesting immune repertoires. In this regard Celltech is working with clinical collaborators to identify suitable patients.

Kinases are an important class of validated drug targets in oncology, and are a major focus in Celltech's medicinal chemistry programmes. Celltech has an excellent knowledge-base in kinases, with several kinase targets in its inflammation discovery pipeline, certain of which have synergies with related oncology targets. Celltech intends to use its in-house crystallography and kinase libraries, along with the screening capabilities through its collaboration with Neogenesis, to identify novel new kinase inhibitors for the treatment of solid tumours.





CDP 791 blocks the activity of a central growth factor receptor involved in tumour angiogenesis, or new blood vessel formation. CDP 791 (upper panel) potently inhibited blood vessel formation and fibrosis in a sponge model of angiogenesis, compared to a control antibody (lower panel). Endothelial cells are revealed by Factor VIII immunostaining.

has a profile consistent with once-or twice-daily dosing, and has shown encouraging therapeutic activity in models of arthritis. Celltech plans to initiate Phase I studies during the second half of 2003, with rheumatoid arthritis as the first clinical indication. Research is also ongoing into the use of CDP 323 as a treatment for MS and Crohn's disease.

PDE4

Phosphodiesterase 4 (PDE4) is a key mediator of underlying inflammation in a number of diseases. These include respiratory disorders such as asthma and chronic obstructive pulmonary disorder (COPD). Antagonism of PDE4 by a small molecule orally active product represents a potentially important therapeutic advance in the treatment of these diseases.

Merck continues to progress a novel, potent once-daily PDE4 inhibitor, which arose from their collaboration with Celltech, in Phase II studies for the treatment of asthma and COPD. Under the terms of the collaboration Celltech will receive progress-related milestone payments, and royalties on worldwide product sales. Celltech also has an option to obtain a share of future profits, through a contribution to Phase III development costs.

Oncology

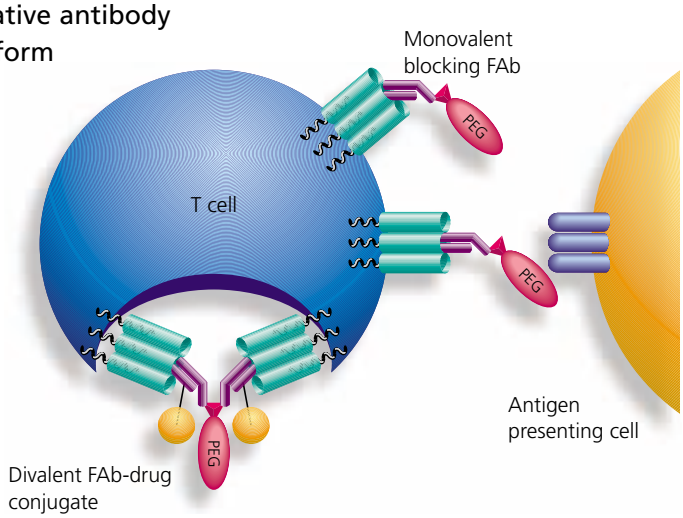
Celltech has a growing pipeline of oncology products, being developed both in-house and in collaboration with major pharmaceutical companies. Celltech's dual-pipeline antibody and small molecule capabilities enable it to address a variety of disease situations, including the use of its flexible antibody fragment platform for a range of mechanistic approaches, detailed in the panel below. Celltech's oncology pipeline reflects both cytostatic approaches, which aim to slow or halt tumour growth, and cytotoxic approaches, which aim to kill tumour cells by antibody-targeted delivery of potent toxins.

Mylotarg

Mylotarg is a novel treatment for acute myeloid leukaemia (AML), consisting of a humanised anti-CD33 antibody linked to the potent cytotoxic drug calicheamicin, which was co-developed with Wyeth. Mylotarg was approved by the FDA in May 2000 for relapsed patients aged 60 years or over who are not considered candidates for other cytotoxic chemotherapy, and was the first antibody-targeted chemotherapy product approved in the US.

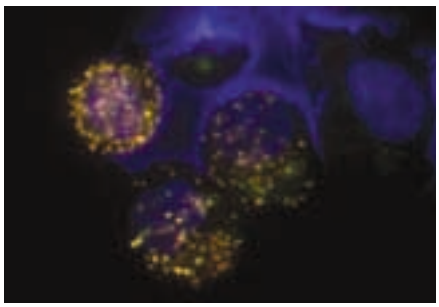
Wyeth has continued to explore the utility of Mylotarg in AML and other conditions, and in December 2002 published preliminary Phase II data at the American Society of Haematology (ASH) meeting highlighting the potential for use of Mylotarg as combination therapy in the first line treatment of AML.

Celltech's innovative antibody technology platform



ABOVE: The flexibility of Celltech's antibody fragment platform is illustrated by the two distinct approaches being pursued for the OX40 receptor programme. Celltech is utilising both a blocking Fab-PEG and a targeted cytotoxic approach to address this target, believed to be important in T cell mediated inflammatory diseases.

Celltech's antibody fragment platform not only offers significant production advantages when compared to traditional whole antibody approaches, but also affords a flexible platform for design and production of the optimum therapeutic entity for a specific application. Coupled with the SLAM technology for antibody selection, and Seattle Genetics' toxin and



RIGHT: These images show the transfer of antibody molecules from the surface of T cells, where they are visualised by orange fluorescence, to the interior of the cell, visualised by green fluorescence. This property of antibody internalisation is key to the process of targeted delivery of cytotoxic drugs to specific cell types and can be controlled by formatting antibody fragments in various valencies.

BMS-275291
Bristol-Myers Squibb continues to evaluate this selective matrix metalloproteinase inhibitor in a large Phase II/III trial in non-small cell lung cancer in combination with Taxol® (paclitaxel) and Paraplatin® (carboplatin), which is expected to be completed during 2003.

CDP 860
One of the limiting factors in chemotherapeutic treatment of tumours is the high interstitial fluid pressure (IFP), which impedes the rate of uptake of these agents into tumours. A number of recently published research articles highlight the potential for inhibition of the PDGFβ receptor as a novel approach for the treatment of cancer, by reducing IFP and hence enhancing the effectiveness of chemotherapy regimes.

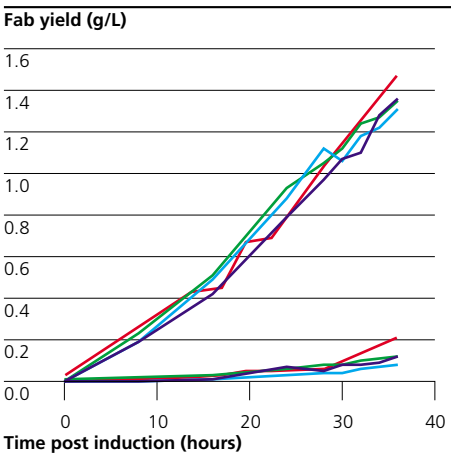
CDP 860 is a humanised antibody fragment targeted against the beta-receptor for Platelet Derived Growth Factor (PDGF). CDP 860 is currently being assessed in a Phase II study to determine whether the drug is able to increase blood flow into human tumours. The results from this study are expected in mid-2003. If successful, further studies will be undertaken to assess whether CDP 860 is able to selectively enhance tumour uptake of a standard chemotherapy regimen.

CMC-544
The effectiveness of Mylotarg has confirmed the rationale for using antibodies to deliver cytotoxic agents selectively to human tumour cells, thus reducing the unwanted side effects normally associated with chemotherapy. Wyeth and Celltech are collaborating on CMC-544, a further approach using the technology related to that developed for Mylotarg. CMC-544 is an anti-CD22 antibody linked to calecheamicin, and is scheduled to enter clinical development for Non-Hodgkin's lymphoma in the first half of 2003.

CDP 791
It is believed that antibodies blocking receptors for certain growth factors will be potent inhibitors of angiogenesis, with potential utility for treatment of a broad range of tumours when used in combination with existing chemotherapeutic regimes. CDP 791 is a very high affinity PEGylated humanised antibody fragment targeted against a key growth factor receptor. CDP 791 is expected to enter Phase I clinical development in mid-2003.

linker technology, Celltech has a world-leading antibody technology platform.

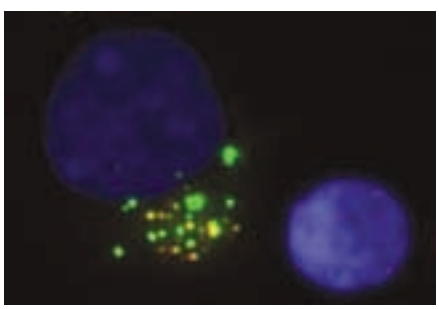
Celltech has strategic manufacturing partnerships with Biochemie and Bioreliance to ensure that supplies of its antibody fragment based products are available for both clinical development and eventual market supply.



Excellent antibody fragment manufacturing yields with CDP 791

Celltech has achieved extremely high yields, approaching 1.5g per litre, with its antibody fragment based product CDP 791, with excellent partitioning between Fab product retained in the periplasm (upper lines) versus that which leaks into the production media (lower lines), aiding recoverability of product for purification. These attributes are important in order to provide competitive cost of goods profile and avoid supply issues.

This data also illustrates the efficient scale-up of the process from laboratory scale (10 litre) to large scale (1000 litre) manufacturing with no reduction in production yields.



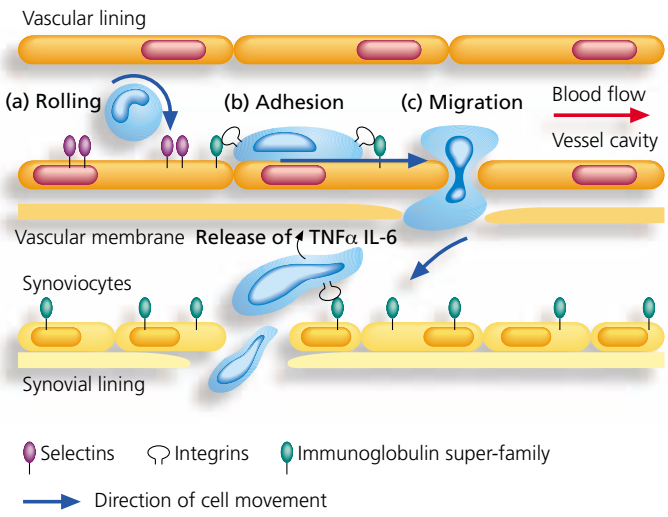
LEFT: Biochemie's large-scale fermentation facility in Kundl, Austria. In September 2002 Celltech announced a long-term agreement, whereby Celltech has reserved a fixed annual manufacturing capacity in Biochemie's 3,000 and 13,000 litre fermenter systems. This agreement allows Celltech flexibility in the manufacturing of its portfolio of PEGylated antibody fragment based development products.

Celltech has a highly efficient and productive research organisation, evidenced by the entry of four novel new entities into development during the last 18 months. Celltech has continued to invest in new technologies, both through in-house development, such as further improvements to its microbial expression system, and through collaborations, including access during the year to Seattle Genetics' novel toxin and linker technology. The continued establishment of high value collaborations validates Celltech's novel product pipeline, with a major agreement during the past year with Amgen for the sclerostin programme. Key late-stage research programmes in the antibody and small molecule pipelines are highlighted below.

Antibody-based programmes
Celltech has established a world-leading position in the design, engineering and expression of antibody therapeutics. In particular, the combination of the SLAM technology with Celltech's PEGylated antibody fragment platform provides a high-throughput capability that enables Celltech to move rapidly from disease target to therapeutic entity.

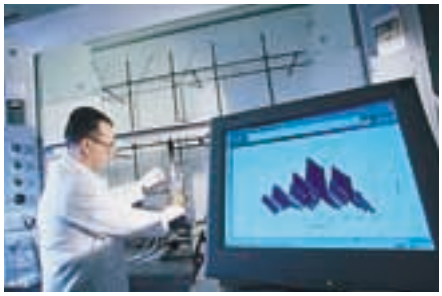
A key component of Celltech's antibody research is the development of new product ideas and novel process development to generate intellectual property protection. Celltech strives to continuously improve both the efficiency of its antibody generation activities and also product characteristics. Excellent progress has been made with the SLAM technology, licensed from Abgenix during 2001, enabling Celltech to routinely isolate high-affinity functionally active antibodies, in addition to encouraging progress using this technology for identification and validation of novel disease targets. Celltech continues to pursue collaborations to access novel targets and

CDP 323:
a novel small molecule anti-inflammatory approach



ABOVE: The critical role of integrins in leukocyte trafficking, a key step in a number of inflammatory processes. It has been demonstrated using antibody antagonists that inhibition of the interaction between leukocytes and adhesion molecules such as integrins provides a potent anti-inflammatory effect in man. Celltech believes that CDP 323 has the potential to provide the same potent anti-inflammatory effect, with the benefit of an oral dosing regimen.

Celltech has built a highly effective small molecule research capability, evidenced by the entry into development of CDP 323, an antagonist of α4 integrins, during 2002. This innovative programme overcomes high plasma clearances and low gastrointestinal absorption seen with many competitor approaches, leading to good exposure that is consistent with once-or twice-daily oral dosing and



technologies that improve the efficiency of its research activities.

Anti-OX40 receptor antibodies for inflammatory disease

The OX40 receptor is over-expressed on activated T-cells, and has been found to govern their long-term survival through interaction with the OX40 ligand. The OX40 receptor shows greatly increased expression in a wide range of autoimmune diseases including RA, IBD, systemic lupus erythematosis, MS, and psoriasis. Preliminary experiments have confirmed that OX40-positive T cells are critical for perpetuation of T-cell mediated inflammation.

Celltech is pursuing two distinct approaches to targeting the OX40 receptor, illustrating the advantages of its flexible antibody fragment platform compared to whole antibody approaches. The first approach is to develop antibody fragment targeted cytotoxic agents to selectively deplete OX40 over-expressing cells. Using SLAM technology, Celltech has been able to isolate internalising antibodies suitable for targeted delivery of cytotoxic agents. Celltech expects to complete proof-of-concept experiments validating this approach during 2003.

Celltech is also pursuing a second distinct approach, using a monovalent antibody fragment to block activation through OX40, without causing signalling through cross-linking of the receptor. Through its antibody fragment technology, Celltech has been able to produce a non-costimulatory form of anti-OX40. This approach is likely to require chronic administration, where the microbial expression technology will provide a substantial advantage for large-scale manufacturing. It is anticipated that a candidate will be entered into development during the next 12 months.

Anti-Sclerostin antibodies for bone disease

Celltech has identified a gene termed SOST (previously known as BEER), with extensive research suggesting the product of this gene, a protein called sclerostin, plays a pivotal role in controlling bone deposition. The goal of the programme is to produce an antibody fragment targeting sclerostin that is able to trigger high quality deposition of bone as a novel treatment for bone disease, including osteoporosis. The critical role of sclerostin in bone deposition, and the ability of antibodies to neutralise sclerostin, have now been demonstrated in a number of disease models. More recently, a large human genetics study has demonstrated the high correlation between specific genetic changes in the SOST gene region and the onset of osteoporosis in humans.

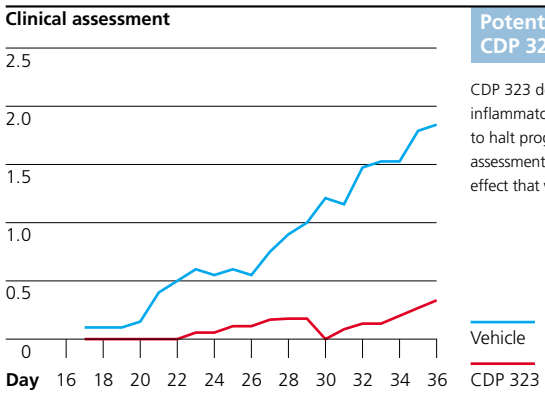
Celltech entered a major collaboration with Amgen during 2002, bringing together Celltech's expertise in the sclerostin target and antibody generation, with Amgen's experience in protein therapeutics and bone biology. Celltech is currently undertaking target validation, following which it will generate an antibody fragment for entry into development.

Early stage antibodies

Celltech has a full pipeline of antibody projects, reflecting a wide range of mechanistic approaches.

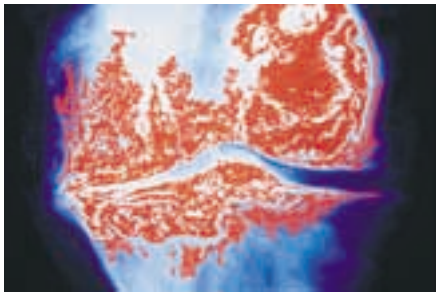
demonstrates a potent anti-inflammatory effect in disease models.

CDP 323 will be developed initially as a novel disease modifying treatment for rheumatoid arthritis. Research is also ongoing into its utility as a treatment for other chronic inflammatory conditions, including multiple sclerosis and inflammatory bowel disease.



Potent anti-inflammatory effect with CDP 323

CDP 323 demonstrates marked efficacy in models of inflammatory disease. In this model, which assesses the ability to halt progression of arthritis using a variety of clinical assessments, CDP 323 demonstrated a potent disease modifying effect that was equivalent to current 'gold standard' treatments.



FAR LEFT: Celltech's extensive small molecule capabilities involve the use of structural based drug design, including computer aided drug design, computational methods and structural NMR, in addition to ultra high throughput screening capabilities through its collaboration with Neogenesis.
These efforts are underpinned by extensive biological expertise, including substantial expertise in models of rheumatoid arthritis (LEFT: inflammed joint from an RA patient) where the goal is to both reduce signs and symptoms of inflammation and to modify the progression of the disease.

In inflammatory disease, Celltech's research is focused upon critical components of the immune system such as T cells, B cells, dendritic cells and endothelial cells, in addition to cytokines and cytokine receptors.

In oncology, Celltech also has a number of active programmes and is seeking further validated targets against which to exploit its flexible antibody fragment technology platform. SLAM technology offers the exciting possibility of direct selection of human antibodies against certain disease targets.

Small molecule research

Celltech has a strong capability in the design and production of small molecule (NCE) therapeutics, with a focus on the identification of best-in-class approaches against well-characterised targets. The NCE research efforts are aligned to areas where Celltech has a strong understanding of disease biology, in particular for mechanisms involved in autoimmune and inflammatory disease. Celltech also has a growing effort in oncology, where many approaches have synergy with targets being explored in the inflammatory portfolio. The NCE pipeline also reflects Celltech's chemistry strengths in target families such as kinases, proteases and integrins. Celltech has a track record of significant NCE collaborations, including Merck (phosphodiesterase 4 inhibitors), Bristol-Myers Squibb (matrix metalloproteinase inhibitors), AstraZeneca (aggrecanase inhibitors) and Johnson & Johnson (KDR kinase inhibitors).

Through its collaboration with Neogenesis established during 2001, Celltech now has access to ultra high throughput screening technologies that are competitive with those of large pharmaceutical companies. This technology has become a key component of Celltech's small molecule research efforts, with excellent progress having been made against a number of important disease targets during the year.

Integrin antagonists for inflammatory disease

Celltech has been pursuing for a number of years a substantial effort to identify potent antagonists acting at $\alpha 4$ integrin receptors. Encouraging results in both MS and IBD have been published with an antibody targeting $\alpha 4$ integrins, highlighting the commercial potential for small molecule orally active integrin antagonists.

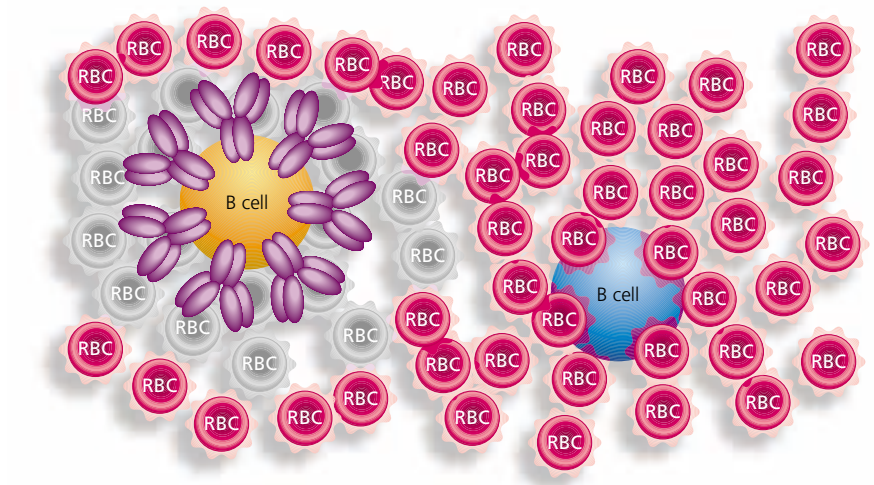
This research resulted in the adoption during September 2002 into the development pipeline of CDP 323, an orally active small molecule targeting both $\alpha 4\beta 1$ (VLA-4) and $\alpha 4\beta 7$ integrins. This molecule will initially be developed for rheumatoid arthritis. Further efforts are ongoing in research to provide both a structurally distinct back-up programme, in addition to exploring the utility of these compounds in other inflammatory conditions such as MS and IBD.

Kinase inhibitors

Celltech has built considerable expertise in kinase inhibitors, with an early success including the partnering of the KDR kinase programme with Johnson & Johnson, who continue to evaluate Celltech's library of potent and selective KDR kinase inhibitors as novel anti-angiogenic approaches for the treatment of cancer and diabetic retinopathy.

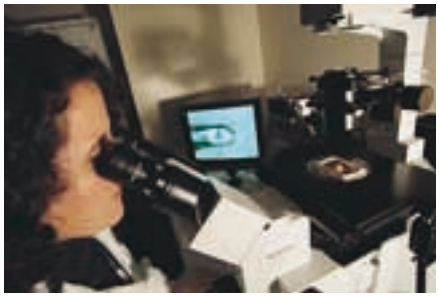
Celltech has a substantial in-house programme around the use of p38 MAP kinase inhibitors as novel anti-inflammatory

SLAM: the next-generation antibody technology



ABOVE: A graphical representation of the SLAM plaque assay in operation. Antibody-producing B cells are selected directly from an immunised species and allowed to proliferate. The 'Y' shaped antibodies are shown being displayed on the surface of the B cells.
The protein target of interest is coupled to red blood cells, which are introduced into the supernatant. Antibodies against the target protein will cause lysis and the death of the red blood cells. This causes a visible 'plaque' around the individual B cell producing the antibody with the desired properties, allowing it to be easily visualised and extracted using a micropipette.

Celltech believes SLAM technology, licensed from Abgenix in 2001, is the pre-eminent antibody technology available today. SLAM allows rapid selection of extremely high-affinity antibodies from a variety of species. Celltech has further developed this technology and believes that it now affords significant advantages over



treatments. p38 MAP kinase is a critical signalling step in the inflammatory pathway, leading to the release of pro-inflammatory cytokines such as TNFα, IL-1β and COX-2. Celltech is currently undertaking late stage research activities and expects to enter a candidate, CDP 146, into preclinical development during the second half of 2003. Initial data from this programme suggests potent anti-inflammatory activity, comparable to other compounds in this class.

Celltech is also pursuing a number of additional kinase approaches at an earlier stage of research.

Aggrecanase inhibitors

In October 1995 Celltech entered into a collaboration with Zeneca (now AstraZeneca) regarding the use of gelatinase inhibitors as potential treatments for cancer, subsequently expanded to include aggrecanase inhibitors. AstraZeneca continues to pursue novel inhibitors of aggrecanase as potential treatments for osteoarthritis. Celltech will receive progress-related milestone payments and royalties on future sales of any products arising from this collaboration.

Other small molecule projects

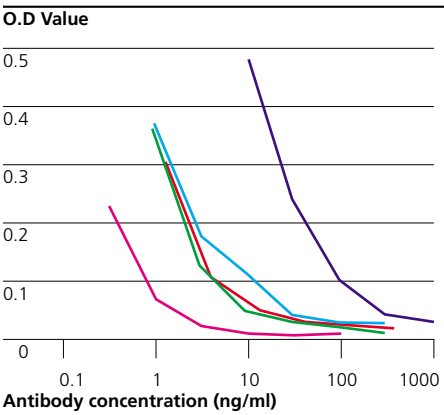
Celltech has an extensive portfolio of small molecule research programmes, including several at a late stage, targeting key mediators of inflammation. Celltech is also leveraging its library of kinase inhibitors as novel anti-proliferative approaches in oncology. The Neogenesis technology is being used alongside Celltech's existing small molecule capabilities in order to rapidly identify lead series of compounds.

Disease target selection strategy for dual pipeline

Access to novel disease targets for the antibody and small molecule pipelines is essential to maintaining a consistent flow of high-quality pipeline products over the long-term. For its antibody pipeline, Celltech is pursuing both in-house target discoveries, in addition to the licensing of high quality targets from academic institutions and the biotechnology and pharmaceutical industry. Celltech's strong in-house target discovery programme is unique in two important aspects. Firstly, all targets are identified in the context of disease function, thereby establishing highly validated targets from the point of discovery. The second aspect is the combination of genetics with a 'drug surrogate' strategy, involving the search for disease phenotypes that resemble the desired effect of the target therapeutic. This approach increases the likelihood that, once the gene responsible has been identified, the target therapeutic will result in the desired effect. Several targets in our discovery pipeline have been identified in this way, including the SOST gene, which plays an important role in bone deposition. Combined, these aspects of our target discovery programme should enable Celltech to capture valuable intellectual property on targets that have a high degree of validation at the point of adoption into our portfolio.

In its small molecule programmes, Celltech carefully selects targets within its key chosen protein families that have a high degree of disease validation. Celltech's core therapeutic focus remains within the autoimmune and inflammatory disease area, with increasing preclinical specialisation in RA and joint disease, IBD, inflammatory pain, MS and other autoimmune diseases. Celltech is also selectively building its preclinical capabilities in oncology as a second strong area of focus.

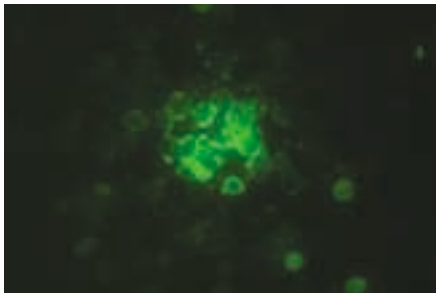
current methods for selecting high affinity human or near-human antibodies. In addition, Celltech has rapidly expanded the use of the technology to include target identification, and target validation, using function modifying antibodies, with both antagonist and agonist properties.

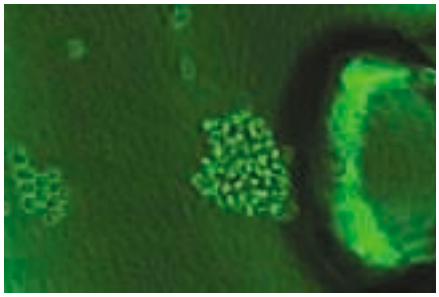


Potent neutralisation of a protein target with SLAM derived antibodies

This chart illustrates the power of SLAM technology in generating antibodies to a difficult protein target.
Using traditional hybridoma technology, in which antibody-producing B cells are fused with a myeloma, a single antibody with the desired properties was generated amongst 20,000 clones. This complicated process required one man-year's effort.
Using the SLAM technology, a large number of extremely high affinity neutralising antibodies were rapidly generated (four shown here), requiring just one man-month's work. These antibodies demonstrated potent neutralisation of the protein target at significantly lower antibody concentration levels.

Hybridoma Slam1 Slam2 Slam3 Slam4





FAR LEFT: One of the key aspects of SLAM is the ability to generate high quality research reagents to antigens to validate targets for antibody-mediated therapy, significantly enhancing our discovery capability.
Potent therapeutic antibodies have already been discovered using SLAM, and these are contributing to our Development pipeline.
CENTRE: Visualisation of a B cell producing antibodies against an unknown protein target using fluorescence technology.
LEFT: Isolation of a single antibody-producing B cell using a micropipette.

A key component of the Group's strategy is the balancing of risk and reward. The pharmaceutical business helps Celltech achieve this goal in two key ways. Firstly, the steady revenue stream from the existing product range helps underpin an internationally competitive level of R&D investment. Secondly, Celltech is able to assess the competitive environment for marketing in a particular disease indication against the capabilities it possesses or can reasonably acquire, facilitating an optimal partnering strategy for each programme, and hence maximising the long-term value from the pipeline.

Sales of major products	**2002 £m**	**2001* £m**	**change %**
Tussionex	**71.3**	61.4	+16
Zaroxolyn	**28.5**	29.0	–2
Metadate CD	**18.0**	8.2	+120
Delsym	**14.3**	9.5	+51
Generic methylphenidate	**12.6**	19.6	–36
Perenterol	**7.1**	1.5	nm
Coracten	**6.3**	5.4	+17
Ionamin	**5.5**	5.3	+4
Dipentum	**4.6**	–	nm
Pediapred	**3.9**	5.7	–32
Semprex-D	**2.6**	6.4	–59
Other	**78.2**	82.9	–6
Total product sales	**252.9**	234.9	+8
Effect of exchange differences	**–**	6.8	
As reported	**252.9**	241.7	+5

*At constant exchange rates

The pharmaceutical business has made significant progress during the last year towards realising the Group's long-term strategic goals, in particular through the access to its first global specialist-focused product, Dipentum, and the subsequent formation of marketing capabilities that will support the marketing of both this product and future pipeline products to gastroenterologists.

Due to the variability of foreign currencies, all comparisons of sales performance for the pharmaceutical business have been made at constant exchange rates. All other financial comparisons have been made at historic exchange rates.

The pharmaceutical business continued to generate a substantial revenue stream, with product sales 8% higher at £252.9 million (2001: £234.9 million), including a full year impact from the German business of £25.1 million (2001: £6.6 million). Excluding the impact of the acquisition of Thiemann in September 2001, sales were steady at £227.8 million (2001: £228.3 million).

A key focus for Celltech is strengthening the pharmaceutical business, both to ensure a robust revenue stream and also to build critical mass in its emerging specialised marketing capabilities. One component of this is the acquisition of specialist-focused products, such as the access to Dipentum, which is marketed as a treatment for ulcerative colitis, from Pharmacia during 2002. Celltech has acquired the European rights to Dipentum, involving total payments



of up to $20 million, and has exclusive sales, marketing and distribution rights for the product in the US, with an option to acquire global product rights in January 2005. Dipentum has been relaunched in the US and in the European markets in which Celltech operates, with a positive initial response from prescribers. Celltech continues to evaluate similar product opportunities, particularly where pan-European or global product rights are available.

A second aspect to strengthening the existing pharmaceutical business is the development of product life cycle strategies for its existing portfolio, including new dosage strengths, improved formulations and maximising the efficiency of manufacturing, particularly in its cough/cold and attention deficit hyperactivity disorder (ADHD) franchises.

Celltech continues to build its specialist gastrointestinal commercialisation capabilities ahead of the launch of pipeline products. Celltech has a strong network of opinion leaders to help guide development and commercialisation of these products and is increasing its presence at key scientific meetings, in particular through the relaunch of Dipentum. Celltech has also strengthened its salesforce capabilities during the year by the creation of a new US gastrointestinal salesforce, initially 30 representatives, with an annualised cost of approximately £3 million. In conjunction with this, Celltech announced in July 2002 a reduction in the US primary care salesforce from 350 to 170 representatives, generating annualised savings of approximately £12 million.

Celltech is also in the process of restructuring its European salesforce, reducing the number of general representatives and strengthening its hospital-focused organisation. Whilst the overall number of representatives is likely to be reduced over the next few years, it is not anticipated that the cost base of the European salesforce will change significantly due to the higher cost of the specialist representatives.

US Operations

Product sales from US operations were broadly in line with the previous year at £162.6 million (2001: £159.4 million), reflecting declines in certain older products, being largely compensated by growth in the key promoted brands. The performance of individual key US products was as follows:

Cough/cold franchise

Celltech's cough/cold products continue to represent an important component of its product portfolio. Tussionex, a long-acting hydrocodone based anti-tussive, continued to perform strongly, notwithstanding a weak cough/cold season, with sales increasing by 16% to £71.3 million and prescriptions growing by 4%, gaining market share during 2002.

Delsym, the only OTC extended release anti-tussive, responded strongly to the introduction of a new bottle size, with sales increasing by 51% to £14.3 million.

Following the receipt of an FDA approvable letter for its new codeine-based anti-tussive product, Codeprex, during 2002, Celltech has made significant progress in addressing the points raised in the letter, with product launch anticipated in time for the 2004/5 cough/cold season.

Attention deficit/hyperactivity disorder franchise (ADHD)

Metadate CD continues to maintain a share of the once-daily methylphenidate market of around 9%, and achieved sales for the year of £18.0 million (2001: £8.2 million). Following the reduction in salesforce, Celltech has substantially reduced and refocused its promotional efforts for Metadate CD in response to the increasingly competitive nature of the ADHD market.

During the year, Celltech announced positive results from a head-to-head study against the current market leader in the once-daily methylphenidate segment. This study was designed to confirm that the pharmacokinetic profile of Metadate CD translates into improved clinical control during the school day. The positive results from this study have been submitted for publication in a peer reviewed journal during 2003. Celltech also plans to introduce two new dosage strengths for Metadate CD during 2003. It is anticipated that, notwithstanding the reduced promotional efforts, Metadate CD revenue will modestly decline over the next few years. However through the reduction in promotion, Celltech expects a significant increase in the contribution from this product.
Prescriptions of all types of generic methylphenidate continued to decline during 2002, as anticipated, due to the continued switching from physicians to newer once-daily formulations, with sales of Celltech's product range decreasing by 41% to £11.1 million.

Other products

Zaroxolyn, a diuretic for the treatment of congestive heart failure, maintained prescription levels with sales slightly lower at £28.5 million (2001: £29.0 million) due to a planned reduction in wholesaler inventory levels.

Initial US sales of Dipentum were £3.2 million, although this product was not formally promoted by Celltech in the US until its relaunch in January 2003.

European Operations

Celltech continued to transform its European organisation during the year. The specialist salesforce organisation will be substantially strengthened over the coming year in order to support specialist-promoted products such as Dipentum and Equasym. Celltech also expanded its geographic reach during the year with the opening of an office in Denmark, which will market certain existing specialist-focused products across the Nordic region. Celltech now has a presence in the majority of European markets, which is important for both the commercialisation of its pipeline products and also in positioning itself as a potential partner for pan-European product acquisitions.

European sales increased significantly to £90.4 million (2001: £75.6), reflecting a full year's ownership of the German business. Excluding the impact of this acquisition, sales declined by 6%, reflecting the mature nature of the European product portfolio, in addition to the cessation of certain revenues relating to Celltech's agreement with PowderJect for the marketing of vaccines. It is anticipated that the European business will continue to show a modest decline ahead of the launch of pipeline products or product acquisitions due to the challenging healthcare budget situations across Europe, including the recent announcement of enforced price cuts in Germany.

The past year has illustrated the robust nature of Celltech's business strategy. Firstly, Celltech's self-funding financial profile enables it to pursue its substantial investment in research and development independently of the conditions in financial markets. Secondly, by pursuing a broad portfolio of products, both through in-house development and in collaboration with large pharmaceutical and biotechnology partners, Celltech actively manages its risk profile such that it is not dependent upon any single product to fulfil its goal of becoming a global biotechnology leader.

The discussion of financial results below uses constant exchange rate comparisons for all sales and royalty figures, and historic exchange rate comparisons for all other figures. Discussion of overall financial performance for the year is based upon the operational profit and loss account, which excludes goodwill amortisation and restructuring items, and is derived from the statutory profit and loss account on page 46. Goodwill arises from the accounting treatment of company acquisitions, representing the difference between the underlying fair value of the business and its acquisition price, and is written off over the useful economic life of those businesses. It is Celltech's view that the operational performance is best assessed with reference to the financial results before taking account of either amortisation of goodwill or one-off restructuring items.

Celltech's business has continued to perform well in all areas, with total product sales and royalties increasing by 12% to £329.6 million (2001: £293.7 million). In particular, significant growth was achieved in Celltech's antibody engineering royalty revenues, which increased by 49% to £53.1 million (2001: £35.5 million). Sales of Celltech's portfolio of mature products increased by 8% to £252.9 million, with individual product performances detailed in the review of the pharmaceutical

Operational profit and loss account for Celltech Group for year ending 31 December 2002	**2002 £m**	**2001 £m**	**change %**
Sales	**329.6**	303.1	+9
Cost of sales	**(94.7)**	(83.5)	+13
Gross profit	**234.9**	219.6	+7
Research and development	**(95.7)**	(90.7)	+6
Selling, marketing and distribution	**(71.5)**	(78.6)	–9
Corporate and general administration	**(26.8)**	(24.9)	+8
Total expenses	**(194.0)**	(194.2)	nil
Operating profit before other income	**40.9**	25.4	+61
Other income	**8.1**	18.8	nm
Operating profit pre restructuring items and goodwill	**49.0**	44.2	+11
Interest	**1.4**	3.6	–61
Net profit pre restructuring items and goodwill	**50.4**	47.8	+5
Tax	**(7.6)**	(8.1)	–6
Net profit after tax pre restructuring items and goodwill	**42.8**	39.7	+8
Earnings per share pre restructuring items and goodwill	**15.5p**	14.4p	+8

business. This strong performance enabled Celltech to increase its R&D expenditure by 6% to £95.7 million (2001: £90.7 million), in addition to showing an increase in operating profit before other income of 61% to £40.9 million (2001: £25.4 million). Earnings per share pre restructuring items and goodwill was 15.5p (2001: 14.4p), which included a $10 million CDP 870 collaboration payment from Pharmacia (2001: $25 million), and year end cash and liquid resources remained strong at £105.1 million (2001: £90.4 million). The basic earnings per share, which include the impact of restructuring items and goodwill, was a loss of 16.7p (2001: loss of 20.3p).

Further details of Celltech's financial performance during the past year, along with key elements of its business strategy, are detailed below.

Financial markets
The past year has been a difficult one for the technology sector, with investors discounting the valuations of companies that have a significant proportion of their value predicated on future product developments. In particular, this has had a marked impact on the biotechnology sector, where a substantial proportion of the future value of these companies is contained within development pipelines. Celltech, with its profitable pharmaceutical business and substantial royalty income, has avoided some of these concerns but nonetheless has seen its shares impacted in line with others.

It is Celltech's view that this has given rise to an imbalance in valuations when comparing biotechnology companies with large pharmaceutical companies. Many pharmaceutical companies currently have thin product pipelines, which will impede their ability to maintain or grow revenues and earnings. Celltech believes that pharmaceutical companies will increasingly look to the biotechnology sector to address issues with their pipelines, which should help highlight the latent value in the biotechnology sector. Consequently, it is critical for biotechnology companies to be able to sustain a broad portfolio of products and to efficiently advance these through early stage development in order to secure value from partnering arrangements. Celltech believes that it is well placed in this regard.

In light of the high discount investors are currently placing on the valuation of biotechnology companies, and the high share price volatility in this sector, Celltech plans to seek approval from shareholders to purchase up to 10% of its own securities at its forthcoming AGM. Since Celltech's business is strongly cash-generative, it believes that the ability to purchase its own securities will provide significant enhancement of shareholder value.

Partnering strategy
Celltech has a long-established strategy of partnering for strength through a range of alliances with large pharmaceutical and biotechnology partners, including traditional out-licensing deals incorporating milestone payments and royalties on sales, enhanced royalty options, and co-development/co-promotion arrangements. Celltech's recent collaborations with Pharmacia, Biogen and Amgen reflect its ability to leverage both its balance sheet strength and commercialisation capabilities, by incorporating co-promotion and profit sharing arrangements, enabling the company to retain greater value in its pipeline products than possible in traditional, royalty-based licensing deals. Importantly, these collaborations are also a key component in managing the risk/reward balance for Celltech.

These arrangements bring substantial benefits to Celltech, both financial, including milestone payments and R&D funding, and operational, through expertise in a particular disease area, both for development and subsequent commercialisation of products. Celltech received milestone payments of £8.1 million during 2002, including a $10 million (£6.4 million) payment from Pharmacia upon initiation of Phase III studies for CDP 870 in rheumatoid arthritis (2001: £18.8 million, including £17.5 million initial CDP 870 collaboration payment from Pharmacia). Celltech also receives substantial benefit from the R&D funding provided by partners, particularly evident in the late-stage development programmes being undertaken by Merck and Bristol-Myers Squibb, who pay all development costs, and through its collaboration with Pharmacia, who are paying the majority of costs for the development of CDP 870 in rheumatoid arthritis. This R&D funding is particularly important in an environment where the costs of bringing new medicines to market are increasing significantly.

Reshaping of pharmaceutical business
Celltech's pharmaceutical business continues to perform two important roles for the Group: firstly, to generate revenues from existing marketed products to support its substantial investment in R&D; and, secondly, to provide a platform for the future specialised marketing of certain pipeline products.

Celltech's strategy includes the future marketing of certain pipeline products directly to specialist audiences. Celltech does not intend to promote pipeline products targeted to primary care practitioners, which it believes are better addressed through partnerships with large pharmaceutical companies. However, in-house promotion for specialist-focused products is attractive due to several factors, including a small target audience, leading to low salesforce and marketing costs, since these products do not usually necessitate direct-to-consumer advertising, reflecting their specialist prescribing nature.

Establishing an effective commercialisation capability entails a substantial investment related to the necessary core background infrastructure, including central marketing support, salesforce automation, managed healthcare relationships and pharmacovigilance. Such an infrastructure can be particularly costly when put in place for a single product. Celltech will use the existing infrastructure in its US and European operations to support additional salesforces addressing specialist prescribing audiences.

Celltech's recent acquisition of Dipentum from Pharmacia is intended to accelerate the transition to a specialist-focused marketing organisation, and is reflected by the ongoing restructuring of its existing salesforces, detailed in the review of the pharmaceutical business. In addition, marketing expenditure during 2002 was lower following the completion of initial heavy promotional activities for Metadate CD, concluded during 2001. The net impact of these changes was a reduction in sales and marketing expenditure for 2002 of 9.1% or £7.1 million which reduced total expenditure to £71.5 million (2001: £78.6 million). The impact of these changes in 2003, incorporating the reductions

in the general salesforce and creation of new specialist marketing capabilities, is expected to lead to a further reduction in sales and marketing expenditure in the range of 5–6%.

Long-term R&D commitment

A core part of Celltech's strategy is its substantial commitment to R&D as the key driver to creating long-term shareholder value. In the recent difficult financial market conditions, many investors are focused on short-term earnings growth as a key valuation criterion. Celltech is committed to maintaining a strong financial position, including a steady earnings profile; however, it does not intend to sacrifice investment in developing its novel product pipeline purely to enhance short-term profitability. Partnering of development products at an appropriate stage is key to Celltech's ability to progress its broad portfolio of products, whilst maintaining an acceptable risk profile for investors.

An important component of Celltech's R&D strategy is to maintain and expand its technology base to secure its competitive position, exemplified by recent deals with Abgenix (SLAM technology), Neogenesis (ultra high throughput screening capabilities) and Seattle Genetics (novel toxin and linker technology). Celltech is also focused on accessing novel disease targets in a cost-effective fashion, which is critical to maintaining a strong flow of pipeline products.

This approach is reflected in the increased R&D expenditure during 2002 of £95.7 million (2001: £90.7 million), which incorporates both modest organic growth and increased external development expenditure, reflecting the advancing product pipeline, and access to new technologies. Celltech plans to grow R&D expenditure modestly over the next two to three years.

Celltech also recognises the need to maintain financial flexibility to take advantage of opportunities as and when they arise, hence it does not propose payment of a dividend, in line with international biotechnology peer companies.

Manufacturing strategy

Timely access to high quality manufacturing facilities is key to the successful development and commercialisation of biological products. However, due to the substantial capital expenditure required to construct such facilities, it is critical to match the investment required for such facilities with pipeline risk, such as product delays or failure.

Celltech currently operates a virtual supply network for its antibody products, using contract manufacturers, including BioReliance and Biochemie, providing substantial flexibility in the scheduling of production of its portfolio of products, without carrying the investment and overhead burden of a dedicated facility. Celltech continuously reviews the advantages of operating such arrangements against constructing an in-house facility and at present does not expect to invest in bringing in-house capacity on stream before the end of the decade.

Financial strength

As a large, mature organisation with a strong financial position, Celltech is able to adopt prudent financial management practices in a comparable fashion to larger pharmaceutical companies.

This was evidenced during 2002 as, in line with many other companies, onerous changes in the insurance market led to a large increase in insurance premiums, as detailed in the interim report. Premiums in the insurance year to September 2002 increased by 57% to £6.1 million, and would have been considerably higher had a three-year agreement not been in place for certain layers of product liability insurance. It is estimated that this agreement will have saved Celltech some £4 million of premiums for each of the years 2002 and 2003.

As a consequence of these changes, and in anticipation of significant further increases in liability premiums in 2003/4, Celltech has formed a subsidiary captive insurance company to underwrite certain areas of risk. A charge of £2.9 million has been recorded in the year, with a further charge likely to be required in 2003 to reflect the risks

Turnover	**2002 £m**	**2001* £m**	**change %**
Total product sales	**252.9**	234.9	+8
Antibody engineering	**53.1**	35.5	+49
Asacol	**7.6**	9.8	–22
Pertactin	**11.0**	8.4	+31
Mylotarg	**2.7**	4.0	–33
Other	**2.3**	1.1	+109
Total royalties	**76.7**	58.8	+30
Total sales	**329.6**	293.7	+12
Effect of exchange differences	**–**	9.4	–
As reported	**329.6**	303.1	+9

* At constant exchange rates

underwritten by this captive insurance company. It will initially cover certain product liability risks, but from September 2003 will underwrite broader liability risks, thereby allowing Celltech to reduce the level of premiums paid to external insurers. Charges in 2002, predominantly included in cost of sales, have consequently increased by £5.0 million compared to the equivalent period last year.

A further issue faced by many companies has been the funding of employee pension schemes in light of the poor performance of global equity markets. Celltech operates a mixture of defined benefit and money purchase schemes, with all new employees entering the latter schemes since January 2000. Like many companies, certain of Celltech's defined benefit pension schemes are currently showing a funding deficit, on a FRS 17 basis amounting to 26% or £20.2 million. On a SSAP 24 basis (the actuarial valuation method used to manage the pension scheme's affairs), the deficit of the UK scheme is £11.1 million lower. Either way, this deficit is small when compared to the Group's market capitalisation and on present assumptions does not necessitate any material change in Celltech's funding of these schemes. Celltech's financial position has continued to strengthen during the year, with year end cash and cash equivalents of £105.1 million (2001: £90.4 million), and net cash after borrowings of £73.9 million (2001: £55.9 million). Cash and liquid resources increased by £20.8 million during the year before taking account of exchange movements of £6.1 million, notwithstanding payments to Pharmacia relating to acquisition of rights to Dipentum totalling £14.7 million. During the year, Celltech renewed its three-year revolving credit facility, designed to provide flexibility in its future funding arrangements, at the reduced amount of £65 million (2001: £80 million), reflecting the Group's solid financial position. The Group also has in issue a $50 million, 6.51% 5-year loan note, repayable December 2003, and plans to review whether to maintain such a facility beyond this date shortly.

Celltech also holds £31 million in convertible loan stock issued by PowderJect Pharmaceuticals plc, yielding 7% to maturity.

Capital expenditure during the year totalled £11.8 million, relating predominately to upgrading laboratory and manufacturing facilities and equipment and information technology enhancements. Capital expenditure in 2003 is expected to be higher than in 2002, relating to the expansion of laboratory facilities at its Slough research facility and an upgrade to the Ashton-under-Lyne manufacturing facility.

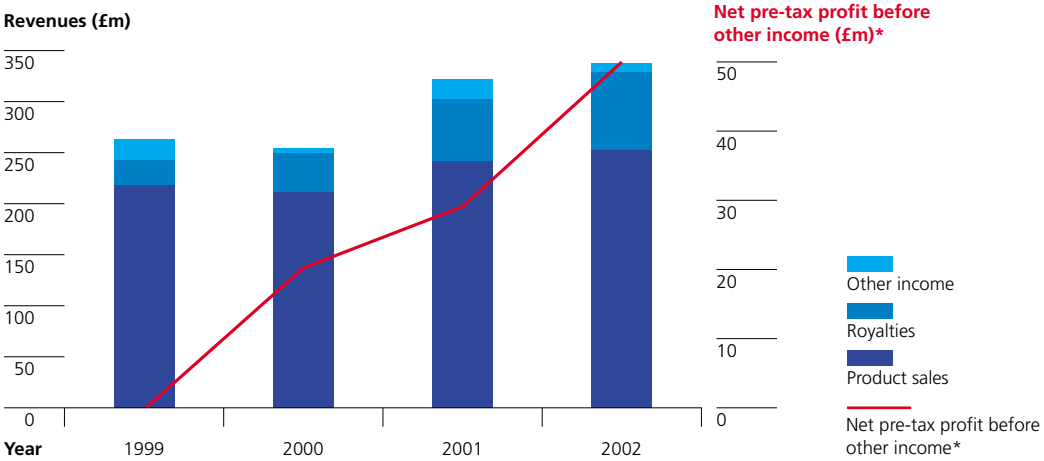
Interest income for the year was lower than for 2001, attributable to lower interest rates applying throughout the period on cash balances, particularly in the US.

Celltech also benefits from accumulated taxation losses, which enabled the Group to maintain a taxation rate of 15% (2001: 17%) for the year. Celltech expects to maintain a taxation rate of not more than 20% for at least three years, based upon the current fiscal environment in the US and UK.

Goodwill amortisation for the year, which arises from the accounting treatment of company acquisitions, amounted to £93.7 million (2001: £92.6 million). The 2001 financial statements included a restructuring charge of £7.8 million: there have been no restructuring charges during 2002.

Business restructuring

Celltech continuously reviews its cost base to ensure that it has financial flexibility and stability to support its ongoing operations. Following the mergers with Chiroscience in 1999 and Medeva in 2000, Celltech generated total proceeds from disposals of £173.4 million, including £33.6 million in convertible loan stock and deferred consideration, and cost synergies of £30 million, largely in corporate and general administrative expenditure, which remained well-controlled during 2002 at £26.8 million (2001: £24.9 million). These cost savings have enabled the Group to significantly improve profitability over the past three years, ahead of the growth in revenues, illustrated by the chart below.



* Pre restructuring items and goodwill. Financial information is derived from the Pro-forma condensed combined profit and loss accounts on page 77.

Board of Directors

J B H Jackson *^#

(73) Chairman

Has been the Chairman of Celltech since 1982. He is also Chairman of Wyndeham Press Group plc, Xenova Group plc and Oxford Technology VCTs plc. He is also a Director of Brown and Jackson plc, WPP Group plc and a number of other companies. Mr Jackson will be retiring from the Board during April 2003.

Dr P J Fellner #

(59) Group Chief Executive

Joined Celltech in 1990 from Roche UK, where he was Chief Executive. He was previously Director of the Roche UK Research Centre and before that Director of Research at Searle UK Research Laboratories. He will succeed Mr Jackson as Chairman during April 2003 upon the appointment of the new Chief Executive Officer. Dr Fellner is also Chairman of British Biotech plc, and two privately held companies, Astex Technology Limited and Ionix Limited. He is a member of the UK Medical Research Council.

P V Allen ACA

(47) Group Finance Director

Joined Celltech in 1992. A Chartered Accountant, he joined Celltech from Associated British Ports Holdings plc where he was Group Financial Controller. Prior to that he was Group Controller at L'Oreal (UK).

Dr M G Lee

(44) Research and Development Director

Joined Celltech in September 1998 from Glaxo Wellcome (now GSK) where she had worked for 10 years, latterly at their Stevenage Medicines Research Centre. Dr Lee became the R&D Director for Celltech in December 2001. She also chairs Imperial Cancer Research Technology Ltd, the technology transfer subsidiary of Cancer Research UK.

LEFT TO RIGHT: **J B H Jackson** Chairman **Dr P J Fellner** Group Chief Executive **P V Allen** Group Finance Director **Dr M G Lee** Research and Development Director




Scientific Advisory Council

Sir Tom Blundell Chairman

Professor Rod Flower **Professor Robert Souhami** **Dr Peter Rigby** **Dr Roger F Newton** **Professor Stephen Holgate** **Dr David Galas**

Sir Tom Blundell FRS, KB, FMedSci *
(60)
Joined the Board of Celltech in 1997. He is a William Dunn Professor and Head of the Department of Biochemistry at the University of Cambridge, co-founder and member of the Board of Astex Technology Ltd and Chairman of the Royal Commission on Environmental Pollution. He is Chairman of Celltech's Science Council.

Prof C R W Edwards MD, FRCP, FRCPEd, FRSE, F Med Sci, Hon Dsc *o
(61)
Vice Chancellor of University of Newcastle-upon-Tyne. He was formerly Principal of Imperial College School of Medicine, London.

M G Newmarch *o
(64)
Chairman of Weston Medical Group plc. He was formerly Chief Executive of Prudential Corporation plc and is a former Director of the Association of British Insurers. He is Chairman of Celltech's Audit Committee.

H R Collum FCA *#^
(62)
Joined the Celltech Group Board in 1999, having been Chairman of Chiroscience from 1998 to 1999. He is Chairman of British Nuclear Fuels plc and is a Director of Safeway plc and Whitehead Mann Group plc. He is Chairman of Celltech's Remuneration Committee. Mr Collum will be retiring from the Board in July 2003.

Dr M E Jaffe BA, MD *^
(66)
Joined the Celltech Group Board in August 1999. He is based in the US and has held senior positions within Merck & Co Inc and was formerly President of the R W Johnson Pharmaceutical Research Institute. He is a Director of Vernalis Group plc.

Dr P R Read CBE, FRCP, FFPM *o
(64)
Joined the Celltech Group Board in March 2000. He is a former Chairman of the Hoechst Group of Companies in the UK and a Past President of the Association of the British Pharmaceutical Industry. Current appointments include Non-Executive Director of Vernalis Group plc, SSL International Group plc, Board member of the South East of England Development Agency (SEEDA) and Chairman of Synaptica Limited.

J W Baker CBE *#
(65)
Joined the Celltech Group Board from Medeva in March 2000. He was Chairman of Medeva PLC from 1996 to 2000. He is Deputy Chairman of Royal and Sun Alliance Insurance plc, is a Non-Executive Director of the Maersk Company, and a member of the Business Advisory Council of the AP Møller Group (Denmark). He is also Chairman of Motac Neuroscience Limited. Mr Baker will be retiring from the Board at the forthcoming AGM.

* Non-Executive
^ Member of the Remuneration Committee
o Member of the Audit Committee
\# Member of the Nomination Committee

TOP ROW: **Sir Tom Blundell** **Prof C R W Edwards** **M G Newmarch**
BOTTOM ROW: **H R Collum** **Dr M E Jaffe** **Dr P R Read** **J W Baker**







Directors' Report

for the year ended 31 December 2002

The Directors submit their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2002. The Remuneration report can be found on pages 30 to 38 and the Corporate Governance report, including the Corporate Social Responsibility statement, can be found on pages 39 to 43.

Review of business operations and future developments

The principal activity of the Group undertaken during the year was the ongoing research and development of novel therapeutic products for human use and the manufacture and sale of prescription pharmaceutical products.

Key events during the past year are referred to in the Chairman's and Chief Executive's Statement and the Group and Operational Reviews. These events include the following:

On 28 February 2002 Celltech announced outline results showing promising efficacy and safety from a large Phase II study with CDP 870 in Crohn's disease patients.

On 26 March 2002 Celltech announced a strategic alliance with BioReliance for the manufacture of clinical supplies.

On 28 March 2002 Celltech announced a multi-target collaboration to use Seattle Genetics' antibody-drug conjugate technology with Celltech's antibody fragments directed against specific diseases, including immunological targets.

On 24 April 2002 Celltech announced a world-wide collaboration with Biogen Inc to develop and commercialise CDP 571.

On 17 May 2002 Celltech announced an agreement with Amgen for the research, development and global commercialisation of novel treatments for osteoporosis utilising Celltech's proprietary antibody fragment technology.

On 30 July 2002 Celltech announced that it had entered into an agreement with Pharmacia Corporation to access its product Dipentum, which is marketed as a treatment for ulcerative colitis.

On 30 July 2002 Celltech announced its results from CDP 571 Phase III studies in Crohn's disease.

On 12 September 2002 Celltech announced that it had entered into a long-term agreement with Biochemie, an affiliate of Novartis AG, under which Biochemie would manufacture for and supply to Celltech PEGylated antibody fragment-based drugs.

On 15 October 2002 Celltech announced results from a head-to-head trial of Metadate CD and McNeil's Concerta.

On 26 November 2002 Celltech announced receipt of a $10 million milestone payment upon entry of its CDP 870 product into Phase III clinical studies.

Results and dividends

Turnover for the year amounted to £329.6 million (2001: £303.1 million). The Directors do not recommend payment of a dividend.

Directors

Membership of the Board (together with Directors' biographies) is shown on pages 26-27. Details of Directors' remuneration and their interests in the share capital of the Company are given in the Remuneration report which can be found on pages 30 to 38. There have been no changes to Directors' interests from 31 December 2002 to the date of this document, other than those set out on page 36.

Mr. Philip Rogerson (58) was appointed to the Board on 12 March 2003. He is Chairman of Aggreko plc and Viridian Group plc and Chairman or Non-Executive Director of a number of other companies.

None of the Directors has any interest in any contract of significance.

Employees' remuneration

Celltech aims to provide remuneration packages that are competitive and designed to attract, retain and motivate employees. In addition to the payment of competitive salaries, Celltech also operates two discretionary bonus schemes. The first scheme is offered to all staff and Executive Directors. Performance related payments may be made annually based on predetermined individual or team performance objectives. Bonus award entitlements range between 7.5% to 40% (50% in the case of Dr Fellner) of salary depending on grade. The second scheme is a Deferred Bonus Plan under which awards may be made to selected Directors and senior executives over shares up to 100% of a participant's annual bonus. The shares subject to awards are held in the Celltech Group plc Employee Share Trust and are capable of release over a period of two years from the date of grant of an award.

All bonuses are provided for at the end of the financial year to which they relate. Further details of Directors' remuneration for the year are given in the Remuneration report.

In addition, eligible employees are given the opportunity to participate in the Group's Share Option Schemes. The allocation of share options takes into account a review of the future potential contribution of individual employees.

Employee involvement

During the year, Celltech continued its policy of providing employees with information about the Group through regular presentations by Directors and the publication of an in-house magazine. In addition, regular meetings are held between management and employees to allow a free flow of information and ideas.

Payment of creditors

It is Celltech's policy with respect to the payment of its suppliers either to use standard terms or to arrange terms of payment when agreeing the terms of each transaction. Where standard terms are not used, suppliers are made aware of the terms of payment and Celltech abides by those terms of payment.

The average number of days purchases for the Group for which payment was outstanding during the year was 38 days.

The Company has no trade creditors.

Political and charitable donations

During the year Celltech made contributions amounting to £22,000 (2001: £7,000) to charitable organisations in the UK. There were no political donations (2001: £nil).

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned.

With regard to existing employees and those who may become disabled, Celltech's policy is to examine ways and means to provide continuing employment under its existing terms and conditions and to provide training and career development, including promotion, wherever appropriate.

Significant shareholdings

As at 17 March 2003 Celltech had received notification from the following institutions of interests in 3% or more of the issued ordinary share capital of the Company.

Barclays plc	8,392,690	3.04%
Fidelity International Limited	25,164,696	9.13%
Franklin Resources Inc	18,260,626	6.62%
Legal & General Investment Mgt Limited	8,721,325	3.16%
The Capital Group Companies	20,506,734	7.44%
Aviva/Morley	11,576,958	4.20%

Share price

The mid-market share price as derived from the London Stock Exchange Daily Official List was 345p on 31 December 2002. The mid-market share price ranged from 290p to 902p during the year 1 January 2002 to 31 December 2002 (2001 financial year: 545p to 1437p). The average share price for the year was 514.2p.

Auditor

KPMG Audit plc has expressed its willingness to continue in office as Auditor and a resolution proposing its reappointment and authorising the Directors to determine its remuneration will be submitted at the Annual General Meeting (AGM).

Annual General Meeting

The AGM of the Company will be held at 11.30 am on Thursday 22 May 2003 at Merchant Taylors' Hall, 30 Threadneedle Street, London. Details of the business to be transacted at the AGM can be found in the separate Circular to shareholders accompanying this report.

By order of the Board

J A D Slater
Secretary
17 March 2003

Introduction

This report has been prepared in compliance with the UKLA Listing Rules and the new Directors' Remuneration Report Regulations 2002. In accordance with these Regulations, a resolution to approve the report will be proposed at the Company's AGM in May. Details of the resolution can be found in the Circular accompanying this report.

Remuneration Committee

The Remuneration Committee consists entirely of Non-Executive Directors and its members throughout the year were Mr Collum (Chairman), Mr Jackson and Dr Jaffe.

The Committee meets no less than twice a year and seeks independent advice, where appropriate, for the purpose of determining all aspects of the remuneration of each Executive Director. The remuneration of each Executive Director is determined by the Committee (including the award of annual bonus, deferred bonus and share options), as are the terms of their service agreements.

When appropriate, the Committee invites the views of the Group Chief Executive Dr Fellner, Group Human Resources Director, Mr Peter Nicholls, and commissions reports from expert remuneration consultants. In determining salary and bonus levels for 2002, the Company appointed Arthur Andersen and subsequently Deloitte & Touche to advise the Committee. During 2002 Arthur Andersen also provided general taxation advice to the Company.

The Committee also recommends to the Board the fees paid to the Chairman. The members of the Committee do not participate in determining or recommending their own fees.

The fees of the Non-Executive Directors are determined by the Board on the joint recommendation of the Chairman and the Chief Executive.

Policy on remuneration of Executive Directors

In determining the Group's policy, and in constructing the remuneration arrangements of each Executive Director, the Board, advised by the Committee, aims to provide remuneration packages that are competitive and designed to attract, retain and motivate Executive Directors of the highest calibre. To achieve this objective, the Committee takes account of information from internal and independent sources.

The total remuneration of each individual Executive Director is benchmarked against the relevant sector. Celltech is one of Europe's largest biotechnology companies and also operates a significant business within the US. Celltech's policy is to provide remuneration generally at levels that are broadly aligned with the mid-points for equivalent roles in comparable companies in Europe and the US.

A high proportion, in excess of 40%, of the total remuneration is performance-related. Performance measures are balanced between absolute financial measures and sector comparative measures to achieve maximum alignment between executive and shareholder objectives. Base salaries can be supplemented by performance-related bonuses. Performance objectives are set at the start of each year.

All medium/long-term incentives are delivered in the form of Celltech shares and share options. In order to link further each Executive Director's interests to the interests of its shareholders, Celltech expects Executive Directors to commit to building and maintaining a personal shareholding of one times salary.

For 2003 and subsequent years, the Company's policy on the remuneration of any person who serves as an Executive Director of the Company is as follows:

Components of the remuneration package

The principal components of Executive Directors' remuneration packages are base salary, short term incentives, medium/long-term incentives, and pension benefits. The policy in relation to each of these components, and key terms of the various incentive and benefit programmes, is explained further below.

- **Base salary**

  Base salaries are reviewed annually taking into account recommendations on individual performance and salary levels in comparable companies.

  In formulating its decision the Committee takes into account appropriate benchmarks, currently the UK pharmaceutical sector and a bespoke UK FTSE comparator group consisting of the larger 50 constituents of the FTSE mid-250 index and the smaller 30 constituents of the FTSE 100 index. These benchmarks were chosen at a time when Celltech was number 84 in the FTSE 100. Whilst the pharmaceutical sector benchmark provided a useful reference point, there were very few companies within the identified comparator group that were comparable to Celltech in terms of size and complexity. On the other hand, the bespoke FTSE analysis, whilst not providing sector-specific benchmarks, is based on comparator companies which are more comparable to Celltech in terms of company size and are therefore, potentially, more relevant benchmarks.

  Each Executive Director's base salary is broadly aligned with the mid-points of the bespoke UK FTSE comparator group and an adjusted version 'normalised' to reflect company size and complexity. Base salaries aligned with these mid-points, combined with cash and deferred bonus incentives, continue to provide competitive compensation packages, in which performance-related components represent a substantial element.

- **Annual performance bonus**
  Executive Directors are eligible for an annual discretionary bonus, whereby individual performance objectives for each Executive Director are established at the beginning of the financial year. Performance-related payments may be paid annually, dependent upon achievement measured against objectives, and are limited to a maximum of 40% of basic salary for each Executive Director (with a maximum of 50% in the case of the Group Chief Executive). The objectives are set by reference to a combination of corporate and individual performance.

- **Deferred bonus**
  Executive Directors are also eligible to participate under Celltech's Deferred Bonus Plan (the Plan) under which awards may be made over shares having a value of up to 100% of the Director's annual cash bonus, which, as stated above, is itself based on individual performance objectives being met and is not therefore subject to any further performance conditions. Awards vest in two equal tranches, on the first and second anniversaries of the date on which the award is made and on vesting, the award converts to a share option which is exercisable over 10 years. Participation is at the discretion of the Committee. Celltech operates the Plan in order to provide additional incentives to its key senior executives, recognising that the retention and recruitment of such employees is critical to the Company's long-term success.

Longer-term performance incentives

Executive Directors are also incentivised by the grant of share options. Executive options are granted under the rules of the Celltech Group plc 2001 Discretionary Share Option Scheme adopted by shareholders at the AGM in 2001. The allocation of discretionary share options takes into account the future potential contribution of each Director. Options are subject to a performance requirement determined by the Remuneration Committee. Currently this performance requirement is that options granted under the Scheme will only become exercisable if Celltech's share price has exceeded the median growth in share price of a comparator group of companies over a period of three to five years from the date of grant of the options. The performance criterion is measured cumulatively over the performance period, which means that if the performance criterion has not been met on the third anniversary of the date of grant, the options may still be capable of exercise provided that the performance criterion is met during the performance period commencing at the date of grant and ending on or prior to the fifth anniversary of the date of grant. If the performance measure has not been met after the fifth anniversary of the date of grant of the option, the option is not normally capable of exercise other than for a period of six weeks prior to expiration of the options on the tenth anniversary of their grant when options are capable of exercise without restriction save for continued employment. It is believed that measurement of performance from a fixed date, coupled with non-exercisability of the options after five years if the target has not been met, reflects the core principles of the ABI Guidelines.

The Committee reviews annually the most appropriate performance measures based upon which options may be granted and/or become exercisable. The Committee has concluded that whilst it is utilising income generated from its pharmaceuticals business primarily to fund its Research and Development (R&D) programmes for its new products, the most appropriate measure of performance remains share price growth against a group of comparator companies of a similar size. It will continue to review whether, at an appropriate time in the future, growth in earnings per share may become a more appropriate measure.

The comparator group selected for performance measurement is a total of approximately 70 to 80 companies, comprising larger members of the FTSE mid-250 index and smaller members of the FTSE 100 index. This comparator group is different to that used for base salary and is reviewed at the time each grant of options is made.

Performance will be measured by calculating the share price growth for each company within the comparator group. The median (ie, the middle when ranked from highest to lowest) of the calculated growth figures will be taken and will then be compared with share price growth, over the same period, for Celltech.

The current constituents of the comparator group (applicable to 2002 awards), excluding the Company, are:

Hanson
Wolseley
Friends Provident
Morrison (Wm) Supermarkets
Enterprise Oil
(now Shell Resources plc)
British Airways
Corus Group
Bunzl
International Power
Emap
United Business Media
Provident Financial
BPB
Schroders
Chubb
Serco Group
Debenhams
Aegis Group

Granada
Scottish & Newcastle
Next
ARM Holdings
Northern Rock
Innogy Holdings (now RWE AG)
Shire Pharmaceuticals Group
Extel
GKN
Electrocomponents
Tomkins
Whitbred
RMC Group
Lonmin
Tate & Lyle
Associated British Ports Hldgs
AWG
BBA Group
Amec

Imperial Chemical Industries
Gallaher Group
Safeway
Rolls-Royce
Capita Group
Canary Wharf Group
EMI Group
Severn Trent
Johnson Matthey
Rexam
Associated British Ports
Rank Group
Peninsular & Oriental Steam Nav Co
CMG (now Logica CMG)
Slough Estates
Kelda Group
Trinity Mirror
Spirent
Smith (WH) Group

Smith & Nephew
United Utilities
P&O Princess Cruises
Hays
Man Group
Sage Group
British Land Co
Brambles Industries
Bradford & Bingley
Daily Mail & General Trust
Signet Group
Misys
Carlton Communications
Liberty International Holdings
Hammerson
Pilkington
Britannic
Alliance UniChem

The limit on the market value of shares which may be placed under option annually for each Executive Director is set by the Committee.

The overriding limit on the grant of options to an individual in any year under the 2001 Scheme is normally four times remuneration except in very exceptional circumstances at the discretion of the Committee. This limit does not include options granted solely for the purpose of compensating UK employees for the cost of bearing Celltech's liability to employers' National Insurance Contributions. In practice, this limit is not likely to exceed two times a participant's annual remuneration (ie, salary plus annual cash bonus opportunity). Options, that are over shares worth more than two times remuneration, will be subject to more demanding conditions. It is the current policy that for such options, share price growth must exceed the median by at least 5%.

Executive Directors also hold options under the Celltech Chiroscience 1999 Executive Share Option Scheme and the Celltech Group 1993 Executive Share Option Scheme. The performance conditions applicable to options under these schemes are set out on page 38. Options are no longer granted under these schemes. Since 2001 executive options have been granted under the Celltech Group plc 2001 Discretionary Share Option Scheme.

The Company also operates a SAYE Share Option Scheme for eligible employees and Directors. Under this Scheme all eligible Directors and employees are invited to subscribe for options which may be granted at a discount of up to 20% of market value. This is an all-employee plan to which performance conditions do not apply.

Full details of Directors' interests in ordinary shares of the Company together with options granted and exercised in 2002 are set out on pages 35 to 37.

- **Pensions and other benefits (audited)**
  Executive Directors, other than Dr Fellner, participate in the Executive Director tier of the Celltech Pension and Life Assurance Scheme (CP&LAS). The CP&LAS is a funded, Inland Revenue approved, final salary occupational pension scheme providing a pension of up to two-thirds of final pensionable salary by Normal Retirement Age (NRA). The NRA in the Executive Director tier of the Scheme is 60.

  Dr Fellner is a member of a contributory money purchase scheme funded with the objective to provide a pension of up to two-thirds of final pensionable salary by a normal retirement age of 60.

  The potential benefits arising from the CP&LAS for the Executive Directors in 2002 were as follows:

Name	M Lee	P V Allen
Age	44	47
Service	4 years	11 years
Accrued pension as at 1/1/02	£10,342	£31,452
Inflation	£175	£534
Increase in annual pension accruing in 2002	£3,259	£3,297
Accrued annual pension as at 31/12/02	£13,776	£35,283
Transfer value of accrued pension at the start of the year based on market conditions at 31/12/01	£88,781	£294,874
Employee contribution	£5,796	£5,796
Increase in cash equivalent transfer value of pension arising in 2002 less member contributions paid in 2002	£19,643	£20,708
Transfer value of accrued pension at the end of the year based on market conditions as at 31/12/02	£114,220	£321,378

The increase in transfer value of pension arising in 2002 less member contributions paid in 2002 was £21,309 for Dr Lee and £24,660 for Mr Allen.

Appointment of Directors and service contracts
Service contracts for Executive Directors (including those subject to re-election at this year's AGM) provide for 12 months' notice of termination, other than in the case of Dr Fellner where the notice period is two years. The notice period in Dr Fellner's service contract was in line with market practice at the time of his appointment and there are no plans to change it, particularly as he will succeed Mr Jackson as Non-Executive Chairman of the Board of Directors, at which time the notice period will no longer apply.

The Committee has determined that all future appointments to the Board will be on the terms of a contract that can be terminated by the Company at any time on one year's notice. Typically, on termination, Directors have been paid contractual benefits (salary, bonus and non-cash benefits) in lieu of 12 months' notice.

Further details of the service contract of each Executive Director of the Company who has served at any time during the relevant financial year are set out below.

Dr Fellner was appointed on 1 October 1990 for an initial term of three years and thereafter until terminated by not less than two years' notice. His contract provides that upon early termination Dr Fellner would be entitled to 24 months' salary, bonus and non-cash benefits in lieu of notice. The contract terminates automatically on Dr Fellner's sixtieth birthday, which is later this year.

Mr Peter Allen was appointed on 11 May 1992, with an initial contract that could be terminated by the Company at the end of an initial term of two years or at any time thereafter on one year's notice. The contract automatically terminates on Mr Allen's sixtieth birthday. Upon early termination Mr Allen would be entitled to 12 months' salary, bonus and non-cash benefits in lieu of notice.

Dr Melanie Lee was appointed on 24 September 1998, with a contract that can be terminated on one year's notice. The contract automatically terminates on Dr Lee's sixtieth birthday. Upon early termination Dr Lee would be entitled to 12 months' salary, bonus and non-cash benefits in lieu of notice.

Mr Cartmell was appointed on 11 September 2000, with a contract that could be terminated on one year's notice. Mr Cartmell resigned from the Board on 28 June 2002. Mr Cartmell received £371,270 on termination of his employment as an Executive Director in respect of the value of his salary, bonus and benefits for his notice period. The Remuneration Committee exercised their discretion, in accordance with the Rules of the Celltech Chiroscience Executive Share Option Scheme 1999, and options held by Mr Cartmell at the time he ceased to be employed by the Company will lapse three years and six months from their respective dates of grant.

Policy on Non-Executive Directors' fees and appointment

Non-Executive Directors do not have a contract of service. The Non-Executive Directors are engaged on letters of appointment that set out their duties and responsibilities and confirm their remuneration.

Non-Executive Directors' fees paid are in line with market practice and are reviewed annually. The Non-Executive Directors are paid out of the funds of the Company by way of remuneration for their services as Directors, such fees not exceeding in aggregate £400,000 per annum (or such larger sum as the Company may, by ordinary resolution, determine). To allow scope for future reviews of Non-Executive Directors' fees, a resolution to increase fees payable to Non-Executive Directors to a maximum of £600,000 per annum in aggregate will be proposed at the AGM.

The Chairman was appointed on 2 September 1987. As announced at the last AGM, Dr Fellner will succeed Mr Jackson as Chairman. Mr Jackson will be retiring from the Board during April 2003.

Mr Collum and Dr Jaffe were appointed on 29 September 1999 for an initial period of two years from 25 May 2000, when the appointments were ratified by shareholders at the AGM of the Company. Their appointments have subsequently been extended on a three-year rolling basis and may be renewed for further periods of three years subject to them and the Board agreeing. Mr Collum will be retiring from the Board in July 2003.

Dr Read and Mr Baker were appointed on 9 March 2000 for an initial period of two years from 25 May 2000, when the appointment was ratified by shareholders at the AGM. Their appointments have subsequently been extended on a three-year rolling basis and may be renewed for further periods of three years subject to them and the Board agreeing. Mr Baker will be retiring from the Board at the forthcoming AGM.

Mr Newmarch was appointed on 27 June 1996 for an initial period of three years. His appointment has subsequently been extended on a three-year rolling basis and may be renewed for further periods of three years subject to his and the Board agreeing.

Professor Edwards and Sir Tom Blundell were appointed on 16 January 1997 for an initial period of three years. Their appointments have subsequently been extended on a three-year rolling basis and may be renewed for further periods of three years subject to them and the Board agreeing.

The Articles state that at each AGM any Director then in office who:

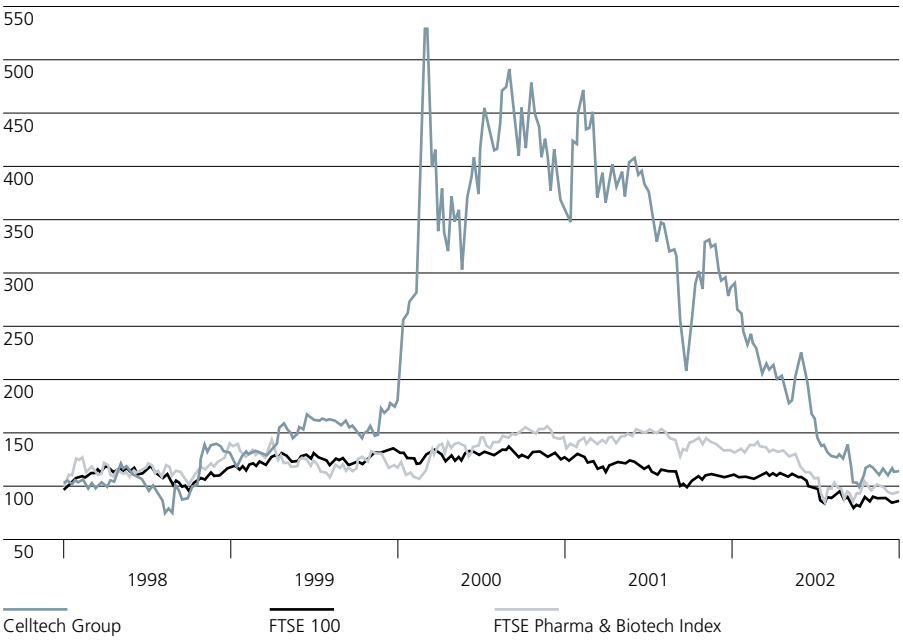
(a) has been appointed by the Board since the previous AGM; or
(b) at the date of the notice convening the AGM had held office for more than 30 months since he was appointed or last re-appointed by the Company at the AGM,

shall retire from office but shall be eligible for re-appointment.

Share Price Performance

The graph below shows the performance of the Company's share price over the previous five years compared to the FTSE 100 Index and FTSE Pharma & Biotech Index. These indices are considered to be the most relevant given the Company's position in the upper section of the FTSE mid-250 and the fact that for approximately two years the Company was a member of the FTSE 100. The information below shows the total return on a Company's share from the period 1 January 1998 to 31 December 2002.

Share Price Graph



The above graph shows the relative price performance of Celltech shares against other relevant indices.

Celltech Share Price Table

	Price in £	Percentage change over period from 1/1/98
Value at 1/1/98	2.98	
Value at 31/12/98	4.01	35%
Value at 31/12/99	5.32	79%
Value at 31/12/00	11.83	297%
Value at 31/12/01	8.74	193%
Value at 31/12/02	3.45	16%

Directors' remuneration (audited)

	Salary /fees 12 months 2002 £000	Bonus 12 months 2002 £000	Benefits 12 months 2002 £000	Compen-sation for loss of office 2002 £000	Total 12 months 2002 £000	Total 12 months 2001 £000	Pension contri--butions 12 months 2002 £000	Pension contri-butions 12 months 2001 £000
Executive Directors								
Dr P J Fellner (highest paid Director)	**450.0**	**389.3**	**21.1**	**–**	**860.4**	810.9	**418.7**	301.4
P V Allen [1] [2]	**300.0**	**210.0**	**16.6**	**–**	**526.6**	501.7	**60.9**	46.1
Dr M G Lee [1] [2]	**285.0**	**194.0**	**19.0**	**–**	**498.0**	397.5	**56.5**	31.6
S C Cartmell [3]	**66.3**	**–**	**2.7**	**371.3**	**440.3**	400.8	**12.7**	57.0
Dr U M Ney	**–**	**–**	**–**	**–**	**–**	314.8	**–**	–
J Ferguson	**–**	**–**	**–**	**–**	**–**	117.8	**–**	20.8
Non-Executive Directors								
J B H Jackson	**120.0**	**–**	**–**	**–**	**120.0**	120.0	**–**	–
Sir Tom Blundell [4]	**37.0**	**–**	**–**	**–**	**37.0**	37.0	**–**	–
Prof. C R W Edwards	**25.0**	**–**	**–**	**–**	**25.0**	25.0	**–**	–
M G Newmarch [5]	**30.0**	**–**	**–**	**–**	**30.0**	30.0	**–**	–
H R Collum	**40.0**	**–**	**–**	**–**	**40.0**	40.0	**–**	–
Dr M E Jaffe	**25.0**	**–**	**–**	**–**	**25.0**	25.0	**–**	–
Dr P Read [6]	**30.0**	**–**	**–**	**–**	**30.0**	30.0	**–**	–
J W Baker	**40.0**	**–**	**–**	**–**	**40.0**	40.0	**–**	–
Total	**1,448.3**	**793.3**	**59.4**	**371.3**	**2,672.3**	2,890.5	**548.8**	456.9

The Company's policy is not to pay an expense allowance or cash benefits to Directors and therefore these columns are not included in the table above.

1. The bonus listed above relates to the year ended 31 December 2002. The bonus includes the deferred bonus which will be settled by shares issued from the Celltech Group plc Employee Share Trust over a period of two years. The deferred bonus amounts to 50% of the total.
2. These Directors are also members of the Celltech Pension and Life Assurance Scheme, the potential benefits arising from which are separately disclosed. The pension payments included above relate to additional payments made to the Directors to compensate for the earnings cap.
3. The payments relate to the period 1 January 2002 to 28 June 2002. Mr Cartmell resigned from the Board on 28 June 2002. No other payments were made or received by Mr Cartmell in connection with the termination of his employment.
4. Includes £12,000 annual payment as Chairman of the Science Council.
5. Includes £5,000 annual payment as Chairman of the Audit Committee.
6. Includes £5,000 annual payment as Chairman of the Trustees of Celltech Pension and Life Assurance Scheme.

Directors' interests in shares

The Directors who held office as at 31 December 2002 and their interests (including the interests of their families) in the share capital of the Company (all beneficially held) are listed below:

	50p ordinary shares owned		Options on 50p ordinary shares	
	31.12.02 or date of resignation	31.12.01 or date of appointment	**31.12.02 or date of resignation**	31.12.01 or date of appointment
J B H Jackson	**100,000**	100,000	**–**	–
Dr P J Fellner	**313,588**	313,588	**526,943**	315,435
P V Allen	**104,096**	104,096	**240,919**	108,615
Sir Tom Blundell	**–**	–	**–**	–
Prof C R W Edwards	**936**	936	**–**	–
Dr M G Lee	**28,420**	17,000	**278,784**	173,317
Dr U M Ney*	**4,243**	4,243	**–**	18,228
S C Cartmell**	**198**	198	**89,112**	91,331
M G Newmarch	**10,000**	10,000	**–**	–
H R Collum	**10,465**	10,465	**–**	–
J W Baker	**11,500**	13,873	**–**	–
Dr P Read	**1,985**	1,985	**–**	–
Dr M E Jaffe	**1,220**	1,220	**–**	–

*Dr Ney resigned from the Board on 31 December 2001.

** Mr Cartmell resigned from the Board on 28 June 2002.

There have been the following movements in Directors' interests since 31 December 2002. On 9 January 2003 Mr Allen exercised options over 8,505 shares and NI options over 1,150 shares held under the Celltech Deferred Bonus Plan. The 1,150 shares were sold in order to meet the employer's National Insurance Charge (NIC). Mr Allen retained the 8,505 shares.

On 15 January 2003 Dr Lee exercised options over 5,835 shares and NI options over 788 shares held under the Celltech Deferred Bonus Plan. The 788 shares were sold in order to meet the employer's NIC. Dr Lee retained the 5,835 shares.

The Executive Directors, being potential beneficiaries under the Celltech Group plc Employee Share Trust (the Trust), technically became interested in 400,000 shares by virtue of the Trust acquiring such shares on 13 January 2003, for a consideration of £1,444,458. These shares will be used for future awards made under the Celltech Deferred Bonus Plan.

There have been no further changes in Directors' interests since the year end and the date of this report.

The Company's Register of Directors' Interests contains full details of Directors' shareholdings and options to subscribe.

Directors Share Options (audited)
Further details of the interests of Directors in shares over which options have been granted are set out below:

	Number at 31.12.01 or date of appointment if later	Number granted	Number lapsed during year	Number exercised during year	**Number at 31.12.02 or date of resignation if earlier**	Varied during period	Exercise price £	Market price on date exercised £	Exercise period	Category
Dr P J Fellner	120,000	–	–	–	**120,000**	–	5.80	–	19.08.1999 – 16.01.2007	B1
	48,261	–	–	–	**48,261**	–	9.73	–	27.04.2003 – 25.04.2010	B2
	24,039	–	–	–	**24,039**	–	9.73	–	27.04.2003 – 25.04.2010	B3
	49,776	–	–	–	**49,776**	–	11.15	–	05.04.2004 – 03.04.2011	B2
	52,466	–	–	–	**52,466**	–	11.15	–	05.04.2004 – 03.04.2011	B3
	2,690	–	–	–	**2,690**	–	11.15	–	05.04.2004 – 03.04.2011	A
	1,021	–	–	–	**1,021**	–	9.48	–	01.06.2004 – 30.11.2004	C
	–	154,878	–	–	**154,878**	–	6.15	–	10.04.2005 – 08.04.2012	D1
	–	20,920	–	–	**20,920**	–	6.15	–	10.04.2005 – 08.04.2012	NI
	7,569	–	–	–	**7,569**	–	–	–	08.01.2002 – 08.01.2011	DE
	7,569	–	–	–	**7,569**	–	–	–	08.01.2003 – 08.01.2011	DE
	1,022	–	–	–	**1,022**	–	–	–	08.01.2002 – 08.01.2011	NI
	1,022	–	–	–	**1,022**	–	–	–	08.01.2003 – 08.01.2011	NI
	–	15,731	–	–	**15,731**	–	–	–	14.03.2003 – 14.03.2012	DE
	–	15,731	–	–	**15,731**	–	–	–	14.03.2004 – 14.03.2012	DE
	–	2,124	–	–	**2,124**	–	–	–	14.03.2003 – 14.03.2012	NI
	–	2,124	–	–	**2,124**	–	–	–	14.03.2004 – 14.03.2012	NI
P V Allen	3,083	–	–	–	**3,083**	–	9.73	–	27.04.2003 – 25.04.2010	A
	31,903	–	–	–	**31,903**	–	9.73	–	27.04.2003 – 25.04.2010	B2
	12,814	–	–	–	**12,814**	–	9.73	–	27.04.2003 – 25.04.2010	B3
	33,426	–	–	–	**33,426**	–	11.15	–	05.04.2004 – 03.04.2011	B2
	16,713	–	–	–	**16,713**	–	11.15	–	05.04.2004 – 03.04.2011	B3
	1,021	–	(1,021)	–	**–**	–	9.48	–	01.06.2004 – 30.11.2004	C
	–	1,855	–	–	**1,855**	–	5.12	–	01.06.2005 – 30.11.2005	C
	–	98,302	–	–	**98,302**	–	6.15	–	10.04.2005 – 08.04.2012	D1
	–	13,279	–	–	**13,279**	–	6.15	–	10.04.2005 – 08.04.2012	NI
	4,252	–	–	–	**4,252**	–	–	–	08.01.2002 – 08.01.2011	DE
	4,253	–	–	–	**4,253**	–	–	–	08.01.2003 – 08.01.2011	DE
	575	–	–	–	**575**	–	–	–	08.01.2002 – 08.01.2011	NI
	575	–	–	–	**575**	–	–	–	08.01.2003 – 08.01.2011	NI
	–	8,761	–	–	**8,761**	–	–	–	14.03.2003 – 14.03.2012	DE
	–	8,762	–	–	**8,762**	–	–	–	14.03.2004 – 14.03.2012	DE
	–	1,183	–	–	**1,183**	–	–	–	14.03.2003 – 14.03.2012	NI
	–	1,183	–	–	**1,183**	–	–	–	14.03.2004 – 14.03.2012	NI

	Number at 31.12.01 or date of appointment if later	Number granted	Number lapsed during year	Number exercised during year	**Number at 31.12.02 or date of resignation if earlier**	Varied during period	Exercise price £	Market price on date exercised £	Exercise period	Category
Dr M G Lee	76,080	–	–	–	**76,080**	–	2.625	–	19.08.1999 – 23.09.2008	B1
	11,420	–	–	(11,420)	**–**	–	2.625	5.97	25.09.2001 – 23.09.2008	A1
	25,351	–	–	–	**25,351**	–	9.73	–	27.04.2003 – 25.04.2010	B2
	12,649	–	–	–	**12,649**	–	9.73	–	27.04.2003 – 25.04.2010	B3
	26,331	–	–	–	**26,331**	–	11.15	–	05.04.2004 – 03.04.2011	B2
	13,166	–	–	–	**13,166**	–	11.15	–	05.04.2004 – 03.04.2011	B3
	1,697	–	–	–	**1,697**	–	4.33	–	01.03.2007 – 30.08.2007	C
	–	2,106	–	–	**2,106**	–	5.12	–	01.06.2009 – 30.11.2009	C
	–	88,136	–	–	**88,136**	–	6.15	–	10.04.2005 – 08.04.2012	D1
	–	11,905	–	–	**11,905**	–	6.15	–	10.04.2005 – 08.04.2012	NI
	2,917	–	–	–	**2,917**	–	–	–	08.01.2002 – 08.01.2011	DE
	2,918	–	–	–	**2,918**		–	–	08.01.2003 – 08.01.2011	DE
	394	–	–	–	**394**	–	–	–	08.01.2002 – 08.01.2011	NI
	394	–	–	–	**394**	–	–	–	08.01.2003 – 08.01.2011	NI
	–	6,493	–	–	**6,493**	–	–	–	14.03.2003 – 14.03.2012	DE
	–	6,493	–	–	**6,493**	–	–	–	14.03.2004 – 14.03.2012	DE
	–	877	–	–	**877**	–	–	–	14.03.2003 – 14.03.2012	NI
	–	877	–	–	**877**	–	–	–	14.03.2004 – 14.03.2012	NI
Mr S Cartmell	2,360	–	–	–	**2,360**	–	12.71	–	30.09.2003 – 29.03.2004	A
	17,300	–	–	–	**17,300**	–	12.71	–	30.09.2003 – 29.03.2004	B2
	29,510	–	–	–	**29,510**	–	12.71	–	30.09.2003 – 29.03.2004	B3
	25,829	–	–	–	**25,829**	–	11.15	–	05.04.2004 – 03.10.2004	B2
	12,915	–	–	–	**12,915**	–	11.15	–	05.04.2004 – 03.10.2004	B3
	1,055	–	–	–	**1,055**	–	–	–	08.01.2002 – 08.01.2011	DE
	1,055	–	(1,055)	–	**–**	–	–	–	08.01.2003 – 08.01.2011	DE
	143	–	–	–	**143**	–	–	–	08.01.2002 – 08.01.2011	NI
	143	–	(143)	–	**–**	–	–	–	08.01.2003 – 08.01.2011	NI
	1,021	–	(1,021)	–	**–**	–	9.48	–	01.06.2004 – 30.11.2004	C

Categories
B1 = options granted under the Celltech Group 1993 Unapproved Executive Share Option Scheme
A1 = options granted under the Celltech Group 1993 Approved Executive Share Option Scheme
B2 = options granted under the Celltech Chiroscience 1999 Executive Share Option Scheme Unapproved A section
B3 = options granted under the Celltech Chiroscience 1999 Executive Share Option Scheme Unapproved B section
A = options granted under the Celltech Chiroscience 1999 Executive Share Option Scheme Approved section
C = options granted under the Celltech Chiroscience Savings Related Share Option Scheme 1999
D1 = options granted under the Celltech Group plc 2001 Discretionary Share Option Scheme (Unapproved)
DE = awards granted under the Celltech Deferred Bonus Plan which have converted into options. The cost of exercise is £1 in aggregate.
NI = NI indemnity options linked to Celltech Group plc 2001 Discretionary Share Option Scheme (Unapproved) and the Celltech Deferred Bonus Plan.

The performance criteria to which the exercise of a share option is conditional is indicated on page 38. There have been no variations made to the performance criteria during the year.

For each Option that is unexpired at the end of the year the mid-market share price as derived from the London Stock Exchange Daily Official List was 345p on 31 December 2002. The mid-market share price ranged from 290p to 902p during the year 1 January 2002 to 31 December 2002 (2001 financial year: 545p to 1437p). The average share price for the year was 514.2p.

Dr Lee exercised 11,420 executive share options on 14 June 2002. The share price on that date was 597p generating a notional gain of £68,177. Dr Lee retained the shares from this exercise.

Dr Ney, who resigned on 31 December 2001, exercised 15,000 unapproved executive options on 17 June 2002. The share price on that date was 610.5p generating a gain of £91,575.

Performance conditions for the Celltech Group 2001 Discretionary Share Option Scheme are as follows:

Options granted under the Scheme will only become exercisable if Celltech's share price has exceeded the median growth in share price of a comparator group over a period of three to five years from the date of grant of the options. The comparator group selected is a total of approximately 70 to 80 companies, comprising larger members of the FTSE 250 index and smaller members of the FTSE 100 index. This comparator group will be updated with the appropriate companies at the time each grant of options is made.

Performance conditions for Celltech Chiroscience 1999 Scheme are as follows:

For options granted under the approved section or unapproved A section the option may only be exercised if the share price of Celltech Group plc (measured from the date of grant of the option) has outperformed the FTSE mid-250 index by an average of at least 2.5% per annum (on a cumulative basis) over at least the three year period from the date of grant of the option.

For options granted under the unapproved B section the option may only be exercised if the share price of Celltech Group plc (measured from the date of grant of the option) has outperformed the FTSE mid-250 index by an average of at least 5% per annum (on a cumulative basis) over at least the three year period from the date of grant of the option.

Performance conditions for options granted under the Celltech Group 1993 Scheme are as follows:

For options granted under the approved scheme the option may only be exercised if:

(i) over the period from grant to exercise, or
(ii) over the period of three years immediately prior to exercise

the total return of a Celltech share has increased by a percentage which is equal to or greater than the percentage increase in the FTSE Pharmaceutical Index (measured by total shareholder return, ie, the increase in the share price combined with the reinvestment of any dividends) over the same period.

For options granted to Directors under the unapproved section of the 1993 scheme the option may only be exercised if:

(i) over the period from grant to exercise, or
(ii) over the period of three years immediately prior to exercise

the total return of a Celltech share has increased by a percentage which exceeds the FTSE Pharmaceutical Index (measured by total shareholder return, ie, the increase in the share price combined with the reinvestment of all dividends) by 4% per annum compounded over the same period.

By order of the Board

H R Collum
Chairman of the Remuneration Committee
17 March 2003

Corporate Governance

Celltech is committed to high standards of corporate governance. Throughout the year to 31 December 2002, the Group has complied with the provisions of the Combined Code on Corporate Governance embodied in the Listing Rules of the UK Listing Authority, other than with regard to the notice period in Dr Fellner's service contract.

Celltech maintains a good dialogue with shareholders and meetings are held with institutional shareholders throughout the year to discuss the progress of the Group. Other means of communication include company presentations, press releases and interim and annual reports. There is a company website (www.celltechgroup.com) which provides information on the Group.

Internal controls

The Board acknowledges that it is responsible for Celltech's system of internal controls (including financial control) and for regularly reviewing its effectiveness. Such a system can only provide reasonable assurance and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The key procedures that the Directors have established are designed to provide effective internal control within the Group and accord with the Internal Control Guidance for Directors in the Combined Code issued by the Institute of Chartered Accountants in England and Wales. The Board has established a formal and continuous process for identifying and evaluating the significant risks faced by the Group.

The Board regularly reviews the effectiveness of the Group's system of internal control on key operational and financial matters. The Board has considered the need for an internal audit function and concluded that in light of the control procedures in place in the Company, there is no current requirement for a separate internal audit function. They will continue to review the requirement for such a function on a periodic basis.

In performing a specific assessment for the purpose of this year's annual report the Board appointed Ernst & Young to carry out an internal risk assessment process.

Celltech's internal control procedures include the following:

Risk management

The organisational structure includes individual reporting lines through to the Board. A structure of management committees and management teams meet regularly to debate and resolve key issues including social, environmental and ethical issues, details of which are discussed below.

Compliance controls

Documented quality procedures are in place to ensure the maintenance of global regulatory compliance. These are subject to periodic review to ensure current standards of quality compliance are maintained. A quality group monitors compliance with Good Laboratory Practice (GLP), Good Clinical Practice (GCP) and Good Manufacturing Practice (GMP) through the implementation of an internal compliance programme (for in-house activities) and an external auditing programme for Contract Research Organisations (CROs) and contract manufacturing activities.

The Group also conducts annual regulatory compliance training initiatives.

A pharmacovigilance group monitors adverse events in support of the Group's marketed products and new product development programmes. These are managed in accordance with formally documented procedures which comply with current regulatory requirements.

There is also a process for developing and maintaining risk management processes across the Group and a tactical plan in the US.

Where judged appropriate, Celltech collaborates with other large pharmaceutical companies regarding the development and marketing or co-marketing of its product pipeline. This approach serves to share the risk and also provide critical mass in areas which complement the Group's own infrastructure.

Financial

The key procedures that the Directors have established with a view to providing effective internal financial control are as follows:

- Policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow management to monitor controls and restrict the unauthorised use of assets.

- Experienced and suitably qualified staff take responsibility for key business functions. Annual appraisal procedures are established which ensure high standards of performance are maintained.

- Budgets and long-term forecasts are prepared which allow management to monitor the key business and financial activities and risks and the progress towards financial objectives set for the year and the longer term. Monthly management accounts are prepared promptly providing relevant, reliable and up to date information; significant variances from budget are investigated as appropriate.

- Clear policies and authorisation procedures are in place for capital investment; major investment projects are subject to authorisation by the Board.

- The Audit Committee reviews reports from management in order to provide reasonable assurance that control procedures are in place and are being followed.

- Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The Directors confirm that they have carried out a review of the effectiveness of internal control as it operated during the year.

Corporate social responsibility

Celltech has long recognised the importance of good corporate governance in building a sustainable business. Particular attention has recently been focused upon the impact of organisations on the environment, in addition to their social policies and business ethics. These areas are commonly grouped under the heading of Corporate Social Responsibility or (CSR), and Celltech believes that they are integral to the successful operation of the Group. It recognises that within the Group's commitment to innovative drug discovery and development, there is also a responsibility to maintain a high standard of CSR. Celltech is developing a strategy to ensure the Group is sustained in a socially responsible manner, thereby maximising the benefits for its stakeholders.

Celltech is also committed to the transparent reporting of progress against its CSR objectives to the broad range of stakeholders interested in different elements of its CSR activities. These stakeholders include employees, shareholders, business partners, suppliers, and the local and scientific communities in which the Group operates. In light of the broad range of areas the Group plans to report on, Celltech will shortly issue a more detailed report on its CSR activities, which will be available on the website (www.celltechgroup.com) or in hard copy from the Investor Relations department. In order to demonstrate the integration of economic, social and environmental considerations in its daily operations with stakeholders, Celltech has provided an overview of key areas from the CSR programme in the following sections.

Celltech is collaborating with external advisors to ensure the CSR reporting continues to meet current requirements. The intention is that the CSR programme will undergo an internal audit followed by independent verification.

The Group has nominated a CSR Steering Committee comprising members of the Executive Committee, including Ingelise Saunders, CEO Celltech Pharmaceuticals and Board representation from Peter Allen, Group Finance Director and Dr Melanie Lee, R&D Director.

Celltech, led by the CSR Steering Committee, aims to maintain high standards of CSR and operates a CSR policy, using management systems to ensure that:

- As a minimum, the Group meets existing standards and proposed legislation.

- Health, safety and the environment issues remain critical to business operations.

- Ethical issues are dealt with in accordance with the Code of Conduct and are managed transparently, in particular in the approach to marketing and clinical trials.

- Employees remain a priority and individual talent is valued and developed.

- Business practices are managed transparently and designed to deliver value to stakeholders.

- Celltech makes a positive contribution to both the local and the scientific communities.

- Group operations are managed in order to minimise social and environmental impact.

- Celltech builds a culture in which all employees are attuned to CSR risks and opportunities, by way of education and communication.

- The Celltech Board, Executive Committee and project leaders work continuously to identify and manage risk in each area of the business considering pharmaceutical, financial and employee health and safety risk prevention as priorities.

Celltech's R&D-centred strategy focuses on areas of autoimmune diseases, inflammatory disorders and cancer. The specific areas of biotechnology are generally considered to have a low adverse impact on the environment. Notwithstanding this, Celltech management has, within the generally accepted principles of sustainability, identified three key areas that have the most significant impact on the sustainability of its business operations:

- Health, Safety and Environment (HS&E) – ensuring the health and welfare of people, minimising utility usage, waste, and working towards a statement of intent for emissions.
- Social – focusing on people development and going about the business in an ethical fashion in line with the defined internal policy.
- Economic – investing in research and development activities to ensure a sustainable economic model and fair returns for shareholders.

These objectives are detailed further below. The HS&E section provides an update following the HS&E Review published in 2002. The CSR programme moving forward intends to evolve and develop the Social and Economic reporting alongside HS&E.

Celltech has in place management systems, where relevant, to collect key data. As stated under Internal Controls (page 39), the Board is responsible and regularly reviews these internal systems and by doing this continually identifies and evaluates significant risks within the Group. More details on the structure of these systems can be found in the fuller CSR report.

Celltech also has an ongoing dialogue with key stakeholders to ensure that the scope and reporting of its CSR programme is relevant and meets their needs, and takes account of future potential changes in CSR reporting required by stakeholders or legislation.

Health, Safety and Environment

Celltech continues to develop the strategy for HS&E, to build a positive culture of safe working and protection of the environment.

Celltech has an active HS&E Steering Committee which is made up of heads of key functions. The two Directors responsible are, Dr Melanie Lee, R&D Director, and Ingelise Saunders, CEO Celltech Pharmaceuticals.

In order to meet the requirements of the policies for HS&E, the Group is:

- Improving and refining HS&E management systems.
- Ensuring any significant risks to employees, neighbours and the environment are identified and control measures put in place to manage them.
- Building a comprehensive audit programme to enable a critical appraisal to be made of the standard of HS&E performance.
- Developing the network of HS&E advisors to management to ensure best practice.
- Publishing HS&E guidance, policies and procedures on the Celltech intranet to ensure effective communication to all employees.

Safety statistics and indicators of environmental performance will be published in the detailed report on the Group's website in Summer 2003.

Special initiatives the Group is currently working on include:

- Managing occupational road risk to employees who drive in the course of their work.
- Health and safety training for sales representatives.
- Building partnerships with contractors to ensure that no one is harmed by their operations on the sites. This involves auditing contractors before they are selected and constant monitoring throughout the period of work. Relationships are terminated if contractors do not comply with the defined safe systems of work.
- Mitigating the effects of land contamination caused by a previous owner of a Group site.
- Training managers to manage the safety of their employees.
- Engaging with suppliers. This has involved auditing major suppliers.

Social

The discovery and development of new medicines has a crucial part to play in increasing the quality of life for patients with specific conditions. The importance of Celltech in society is reflected in the Group Code of Conduct which outlines the vision to create an open and lively culture in which Celltech employees use and share information to help people understand their part in achieving the Group's objectives and the impact of their work in society. This policy focuses on:

- The use of Site Committees, a global intranet site, company magazines and employee briefings to encourage collective and individual feedback on all aspects of the business.
- Employee support programmes to provide confidential advice on all aspects of professional and personal life.
- Flexible benefit packages, designed to be competitive within each of the Group's market places, to retain key staff and further individual careers.
- Training as a priority. The Group works to give each individual the opportunity to develop skills and knowledge.

Economic

A key element of creating a sustainable business is investment in research and development activities to generate intellectual capital and property that lead to a long-term sustainable economic model, and provide fair returns for shareholders. In addition, Celltech's business activities are inextricably linked with the Group's CSR obligations as the Company discovers and develops drugs in the core therapeutic areas of autoimmune diseases and inflammatory disorders and cancer. These activities add value to society and increase quality of life for patients. Celltech is committed to conducting its business in line with the Code of Conduct whilst minimising adverse environmental and social impacts. Key elements of this strategy are:

- Sustaining a competitive level of R&D investment whilst maintaining a robust financial position.
- Investing in new technology to ensure the Group's R&D efforts remain fully competitive.
- Partnering for strength with major pharmaceutical and biotechnology companies having complementary capabilities.
- Operating risk management plans to ensure that each aspect of our business will operate safely.
- Regular meetings of senior management both within areas of the Group and across the Group to resolve key business issues.
- Ongoing monitoring of compliance across the business. Documented quality procedures are in place to maintain current standards.
- Regular dialogue with stakeholders.

Board of Directors

As at the 31 December 2002 the Board of Directors comprises three Executive Directors and seven Non-Executive Directors, including a Non-Executive Chairman. Mr Hugh Collum and Mr John Baker are senior independent Non-Executive Directors. In addition and for the purposes of the Combined Code, Mr Newmarch, Professor Edwards, Dr Jaffe and Dr Read are considered by the Board to be independent Non-Executive Directors. Sir Tom Blundell chairs Celltech's Science Council. The biographical details of the Board members are set out on pages 26 and 27. Mr Rogerson was appointed an independent Non-Executive Director in March 2003. His details are set out on page 28.

The Board provides effective leadership and manages overall control of the Group's affairs through the schedule of matters reserved for its decision. This includes approval of the annual budget and business plan, major capital expenditure, significant acquisitions and disposals, and approval of financial statements.

There are eight scheduled Board meetings each year and other meetings are held as necessary.

Chairman

The Company expects to announce the appointment of a new Chief Executive shortly. Upon his appointment, Dr Fellner will become Non-Executive Chairman.

The announcement regarding the appointment of Dr Fellner as Chairman was made prior to the publication of the Higgs Report on the role and effectiveness of Non-Executive Directors in January 2003. In view of the Higgs Report the Non-Executive Directors (other than the current Chairman) reviewed and confirmed the recommendation for Dr Fellner's appointment, noting that:

(a) At this important stage in the development of the Company, Dr Fellner brought a unique experience, knowledge and background of the Company. The continuity he would provide would be of value to both the Board and shareholders particularly over the next few years.

(b) The new Chief Executive is being recruited in full knowledge of the plans for the appointment of Dr Fellner as Chairman. This has been a key influencing factor in the recruitment to the position of Chief Executive of a senior and highly qualified and experienced executive in the pharmaceutical industry.

The Board will consider the full recommendations of the Higgs Report over the coming year.

Board Committees

The Board has Audit, Remuneration and Nomination Committees.

The Audit Committee has operated throughout the year and its current members are Mr Newmarch, Professor Edwards and Dr Read. It is chaired by Mr Newmarch and normally meets twice a year. The responsibilities of the Committee include a critical review of the annual and interim financial statements prior to their submission to the Board for approval and the monitoring of the effectiveness of internal control systems. The external auditor attends its meetings and has the opportunity for private discussions with the Committee. The Board notes the publication on 20 January 2003 of the report and proposed guidance for audit committees issued by the group appointed by the Financial Reporting Council and chaired by Sir Robert Smith. The Board will give full consideration to the report during the coming year.

The Remuneration Committee has operated throughout the year and its current members are Mr Collum, Mr Jackson and Dr Jaffe. The Committee, which is chaired by Mr Collum, meets not less than twice a year. It seeks independent advice, where appropriate, for the purpose of determining all aspects of the remuneration of the Executive Directors and other senior executives, including the award of share options, the terms of their service agreements, and recommending to the board the fees paid to the Chairman. The members of the Committee do not participate in determining or recommending their own remuneration or fees. The fees of the Non-Executive Directors are determined by the Board on the joint recommendation of the Chairman and the Group Chief Executive.

A Nomination Committee meets as appropriate. The members of the Nomination Committee are Mr Jackson, Mr Baker, Mr Collum and Dr Fellner. The Committee is chaired by Mr Jackson.

Relations with shareholders

Communications with shareholders are given a high priority. The Chairman's and Chief Executive's Statement and the Operational and Financial Reviews on pages 1 to 25 include a detailed review of the business and future developments. A regular dialogue is maintained with institutional shareholders including presentations after the announcement of the preliminary results at the year-end and half-year. Celltech's website is regularly updated with information on the Group's activities.

The AGM offers the Board the opportunity to communicate with private and institutional investors and their participation is welcomed. The Chairmen of each of the Committees described above will ordinarily be available at the AGM to answer questions. Details of resolutions to be proposed at the AGM on 22 May 2003 can be found in the Circular enclosed with this report.

Going concern

The Directors consider that the funds available to the Group are sufficient for its operations for the foreseeable future and have prepared the accounts on a going concern basis.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts for each financial year to give a true and fair view of the statement of affairs of the Group and of the profit or loss of the Group for that year. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Celltech Group plc

We have audited the financial statements on pages 46 to 76. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the annual report and the Directors' remuneration report. As described on page 44, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 39 to 43 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the Directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

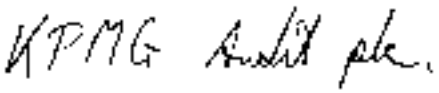
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the loss of the Group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
17 March 2003

Consolidated Profit and Loss Account

for the year ended 31 December 2002

	Notes	Pre goodwill charge Year to 31 Dec 2002 £m	Goodwill Year to 31 Dec 2002 £m	Total Year to 31 Dec 2002 £m	Pre restructuring items and goodwill Year to 31 Dec 2001 £m	Restructuring items and goodwill Year to 31 Dec 2001 £m	Total Year to 31 Dec 2001 £m
Turnover	2	**329.6**	**–**	**329.6**	303.1	–	303.1
Cost of sales		**(94.7)**	**–**	**(94.7)**	(83.5)	–	(83.5)
Gross profit		**234.9**	**–**	**234.9**	219.6	–	219.6
Investment in research and development		**(95.7)**	**–**	**(95.7)**	(90.7)	–	(90.7)
Selling, marketing and distribution expenses		**(71.5)**	**–**	**(71.5)**	(78.6)	–	(78.6)
Administrative expenses	4	**(26.8)**	**(93.7)**	**(120.5)**	(24.9)	(100.4)	(125.3)
Operating profit/(loss) before other income		**40.9**	**(93.7)**	**(52.8)**	25.4	(100.4)	(75.0)
Other income	3	**8.1**	**–**	**8.1**	18.8	–	18.8
Operating profit/(loss)	4	**49.0**	**(93.7)**	**(44.7)**	44.2	(100.4)	(56.2)
Net interest receivable	6	**1.4**	**–**	**1.4**	3.6	–	3.6
Profit/(loss) on ordinary activities before taxation		**50.4**	**(93.7)**	**(43.3)**	47.8	(100.4)	(52.6)
Tax on profit/(loss) on ordinary activities	8	**(7.6)**	**5.1**	**(2.5)**	(8.1)	5.2	(2.9)
Profit/(loss) on ordinary activities after taxation	25	**42.8**	**(88.6)**	**(45.8)**	39.7	(95.2)	(55.5)
Accrual for unpaid preference share dividend	25	**(0.2)**	**–**	**(0.2)**	(0.2)	–	(0.2)
Transfer to/(from) profit and loss reserve		**42.6**	**(88.6)**	**(46.0)**	39.5	(95.2)	(55.7)
Basic earnings/(loss) per share (pence)	9	**15.5**		**(16.7)**	14.4		(20.3)
Diluted earnings/(loss) per share (pence)	9	**15.4**		**(16.7)**	14.2		(20.3)

The results presented above arise from continuing operations.

Consolidated Statement of Recognised Gains and Losses

for the year ended 31 December 2002

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Consolidated loss for the year	**(45.8)**	(55.5)
Currency translation difference on foreign currency net investments and net borrowings	**(11.0)**	0.3
Total recognised losses for the year	**(56.8)**	(55.2)

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2002

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Total recognised losses for the year	**(56.8)**	(55.2)
Share capital issued	**2.0**	5.0
Net decrease in shareholders' funds	**(54.8)**	(50.2)
Shareholders' funds at start of year	**619.2**	669.4
Shareholders' funds at end of year	**564.4**	619.2

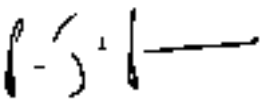
Consolidated Balance Sheet

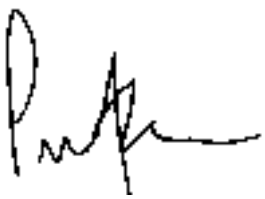
as at 31 December 2002

	Notes	31 Dec 2002 £m	31 Dec 2001 £m
Fixed assets			
Intangible assets	11	**439.9**	498.3
Tangible assets	12	**95.2**	103.5
Investments	13	**40.2**	38.3
		575.3	640.1
Current assets			
Stock	14	**43.4**	45.7
Debtors	15	**76.6**	82.7
Equity investments	16	**–**	2.0
Cash and liquid resources	17	**105.1**	90.4
		225.1	220.8
Creditors: amounts falling due within one year	18	**(160.1)**	(119.2)
Net current assets		**65.0**	101.6
Total assets less current liabilities		**640.3**	741.7
Creditors: amounts falling due after more than one year	19	**(12.7)**	(45.6)
Provisions for liabilities and charges	20	**(63.2)**	(76.9)
Net assets		**564.4**	619.2
Capital and reserves			
Called up share capital	25	**141.3**	141.0
Share premium account	25	**83.3**	81.6
Other reserves	25	**621.4**	621.2
Profit and loss account	25	**(281.6)**	(224.6)
Shareholders' funds		**564.4**	619.2

An analysis of shareholders' funds between equity and non-equity interests is given in note 25.

Approved by the Board on 17 March 2003 and signed on its behalf by





Dr Peter Fellner
Director

Peter Allen
Director

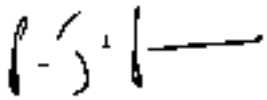
Company Balance Sheet

as at 31 December 2002

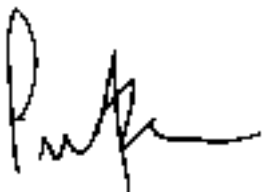
	Notes	31 Dec 2002 £m	31 Dec 2001 £m
Fixed assets			
Investments	13	**292.9**	291.2
Current assets			
Cash	17	**22.3**	15.0
Total assets less current liabilities		**315.2**	306.2
Net assets		**315.2**	306.2
Capital and reserves			
Called up share capital	25	**141.3**	141.0
Share premium account	25	**83.3**	81.6
Other reserves	25	**2.4**	2.2
Profit and loss account	25	**88.2**	81.4
Shareholders' funds		**315.2**	306.2

An analysis of shareholders' funds between equity and non-equity interests is given in note 25.

Approved by the Board on 17 March 2003 and signed on its behalf by



Dr Peter Fellner
Director



Peter Allen
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Notes	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Net cash inflow from operating activities	29	**49.4**	38.7
Returns on investments and servicing of finance			
Interest received		**2.8**	5.1
Interest paid		**(2.5)**	(2.4)
Interest paid on finance leases		**(0.1)**	(0.2)
Net cash inflow from returns on investment and servicing of finance		**0.2**	2.5
Taxation			
Taxation paid		**(4.4)**	(4.3)
Taxation refunded		**0.8**	13.0
Taxation (outflow)/inflow		**(3.6)**	8.7
Capital expenditure and financial investment			
Payments made to acquire tangible fixed assets		**(11.8)**	(16.1)
Payments made to acquire intangible fixed assets		**(16.1)**	(11.8)
Payments made to acquire fixed asset investments		**–**	(7.0)
Proceeds from disposal of equity investments		**1.1**	11.5
Proceeds from sale of fixed assets		**0.7**	1.1
Net cash outflow from capital expenditure and financial investment		**(26.1)**	(22.3)
Acquisitions and disposals			
Deferred consideration		**–**	(1.5)
Acquisition of Thiemann, including related costs less cash acquired	22	**–**	(26.2)
Net proceeds from European asset sales	24	**–**	3.0
Cash funding in respect of businesses held for resale		**–**	(4.1)
Proceeds from sale of businesses held for disposal	23	**–**	15.3
Net cash outflow from disposals and acquisitions of businesses		**–**	(13.5)
Net cash inflow before management of liquid resources and financing		**19.9**	14.1
Management of liquid resources		**30.1**	(7.0)
Financing			
Receipts from issuing shares		**2.0**	5.0
Capital element of finance lease rental payments		**(1.1)**	(1.3)
Repayment of loan of acquired subsidiaries		**–**	(5.4)
Net cash inflow/(outflow) from financing		**0.9**	(1.7)
Increase in cash in the period		**50.9**	5.4

Reconciliation of Net Cash Flow to Movement in Net Funds

for the year ended 31 December 2002

	Notes	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Increase in cash		**50.9**	5.4
Management of liquid resources		**(30.1)**	7.0
Total increase in cash and liquid resources		**20.8**	12.4
Loans and finance leases acquired with subsidiaries		**–**	(5.4)
Loans and finance leases disposed with asset sales		**–**	0.3
Decrease in long term debt and finance leases		**1.1**	6.7
Inception of new finance leases		**–**	–
Change in net funds		**21.9**	14.0
Exchange differences		**(2.8)**	0.5
Movement in net funds in the period		**19.1**	14.5
Net funds at beginning of period	29	**53.1**	38.6
Net funds at 31 December	29	**72.2**	53.1

1. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated accounts include the results of the Company and all of its subsidiary undertakings. No profit and loss account is presented for Celltech Group plc as provided by section 230 of the Companies Act 1985. The results of businesses acquired are included in the Group accounts from their date of acquisition.

Income recognition

Revenue from product sales is recognised upon receipt and acceptance by the customer by 31 December of each year. Provisions for discounts and rebates to customers are based upon the terms of sale in the same period that the related sales are recorded. Provisions for returns and other adjustments are made in the period that the related sales are recorded.

Royalties receivable under licensing agreements are recognised as they are earned and are recorded within turnover.

Revenue under research and development reimbursement contracts, where there is no obligation to repay such amounts, is recognised as the related costs are incurred and is recorded as a credit to research and development expenditure.

Income associated with performance milestones is recognised based upon the occurrence of the event that triggers the milestone payment, as defined in the respective agreements, and is recorded as 'Other income'.

Other payments received, such as licence fees, are assessed on a case by case basis taking into account the nature of the payment and the ongoing collaboration, if any, with the third party and any possible related continuing obligations. Depending on the nature of the arrangement, amounts received may be recognised immediately as a component of 'Other income' or deferred over the development or other appropriate period.

Goodwill

Goodwill represents the excess of consideration paid over the fair value of the net separable assets acquired at the date of acquisition. Goodwill arising after 1 January 1998 is capitalised and amortised over its useful economic life, normally not exceeding 20 years, on a straight line basis. Prior to 1 January 1998 goodwill was written off directly to reserves and upon disposal would be charged to the profit and loss account.

Intangibles

Intangible assets represent acquired licences, patents, platform technologies and marketing rights, where these relate to specific compounds, products or know-how which are being developed or used for commercial applications. Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of a business are capitalised separately where their value can be measured reliably; otherwise they are treated as part of goodwill acquired with that business. Separately capitalised intangible assets are stated at cost less provision for amortisation. Intangible assets in relation to licences, patents and marketing rights are amortised over their estimated useful lives to match the sales of the related products or, where this is not readily identifiable, on a straight-line basis. Estimated useful lives are reviewed annually and are generally presumed not to exceed 20 years. Platform technologies supporting the Group's discovery research strategy are presumed to have an indefinite life and consequently are subject to annual reviews and amortised as necessary if impairment is considered to have taken place.

Research and development

Research and development expenses include related salaries, contractor fees, building costs, utilities and allocations of appropriate administrative overheads. Research and development costs also include activities such as product registration and regulatory costs. All such costs are charged to research and development expenditure as incurred.

Depreciation

Depreciation is provided on all fixed assets at rates calculated to write the cost of each asset down to estimated residual values evenly over its expected useful life, as follows:

Leasehold properties and improvements	–	the shorter of 20 years or the lease term
Freehold buildings	–	50 years
Freehold land	–	No depreciation
Plant and machinery	–	2 to 10 years

1. Accounting policies continued

Stocks

Stock of material for use in scheduled clinical trials is written off to investment in research and development upon use or at the termination of the programme. The total clinical trial stock on the balance sheet as at 31 December 2002 is £7.9 million (2001: £6.6 million). Other stocks are stated at the lower of cost and net realisable value.

Leased assets

Assets acquired under finance leasing arrangements are capitalised at cost upon inception and depreciated over their expected useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Outstanding future lease obligations are shown in creditors.

Rentals paid under operating leases are charged to the profit and loss account as they accrue.

Foreign currencies

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at the average rates of exchange, other than substantial exceptional items which are translated at the rate on the date of the transaction. The adjustment to closing rates is taken to reserves.

Balance sheets are translated at closing rates. Exchange differences arising on the re-translation at closing rates of the opening balance sheets of overseas subsidiaries are taken to reserves, less exchange differences arising on related foreign currency borrowings. Tax charges and credits arising on such items are also taken to reserves. Other exchange differences are taken to the profit and loss account.

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related foreign currency contract.

Preference share dividends

Accumulated unpaid preference share dividends are accounted for as a reserves accrual (see note 25).

Pensions

The Group operates contributory and non-contributory defined benefit and defined contribution pension schemes covering the majority of its employees. The scheme funds of the defined benefit plans are administered by trustees and are independent of the Group's finances. Contributions are paid to the schemes in accordance with the recommendations of independent actuaries. The Group's contributions are charged to the profit and loss account so as to spread the costs of pensions over employees' working lives with the Group.

As permitted by SSAP 24, and as indicated in note 27, the defined benefit schemes of certain overseas subsidiaries are accounted for under local GAAP due to the difficulties and cost of obtaining the necessary actuarial information.

Payments to defined contributions schemes are expensed as incurred.

Equity investments

Current asset equity investments are valued at the lower of cost and net realisable value. In determining net realisable values, market values are used in the case of listed investments and Directors' estimates are used in the case of unlisted investments.

Deferred taxation

Deferred taxation is provided on timing differences that have originated but not reversed by the balance sheet date on a non-discounted basis except as otherwise required by FRS 19. Deferred taxation assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits from which future reversals of the underlying timing difference can be deducted.

Contingent liabilities

The Group is involved in certain legal proceedings, arising in the normal course of its business, as discussed in the contingent liabilities note to the Financial Statements (see note 28). Provision is made in the accounts for all liabilities which might be reasonably expected to materialise from these claims.

Financial instruments

The Group uses financial instruments, in particular forward exchange contracts to manage the financial risks associated with the Group's underlying business activities and the financing of those foreign activities. The Group does not undertake any trading activity in financial instruments.

A discussion of how the Group manages its financial risks is included in the Financial Review and in note 21. The primary financial instruments used by the Group are forward exchange contracts which are used to hedge foreign exchange exposures arising on forecast receipts in foreign currencies. As the hedges are not matched to specific receivables gains and losses are not recognised until such time as they have been realised.

The aggregate fair values at the balance sheet date of the hedging instruments described above are disclosed in note 21 to the accounts.

2. Analysis of turnover, profit and net assets

Turnover is represented by product sales and royalties receivable during the year. Income receivable as milestones arising from research and development collaborations is treated as other operating income.

(i) Turnover by geographical destination	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
UK	**41.9**	46.3
Rest of Europe	**48.5**	29.6
USA	**231.8**	220.2
Rest of World	**7.4**	7.0
	329.6	303.1

Turnover comprises £252.9 million (2001: £241.7 million) of product sales and £76.7 million (2001: £61.4 million) of royalty income.

(ii) Segmental analysis by country of origin

	Turnover		Operating (loss)/profit before goodwill and restructuring items		Operating (loss)/profit		Net assets	
	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
UK	**116.2**	102.5	**(3.2)**	(15.1)	**(24.9)**	(39.4)	**186.0**	178.0
Rest of Europe	**50.9**	34.2	**10.7**	11.3	**(1.7)**	2.2	**65.2**	79.5
USA	**162.5**	166.4	**41.5**	48.0	**(18.1)**	(19.0)	**313.2**	361.7
Total	**329.6**	303.1	**49.0**	44.2	**(44.7)**	(56.2)	**564.4**	619.2

Substantially all of the turnover and operating profits are generated from the Group's principal activity being the research and development of novel therapeutic products for human use and the development, manufacture and sale of prescription pharmaceutical products.

3. Other income

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Pharmacia	**6.4**	17.5
Other milestones	**1.7**	1.3
	8.1	18.8

The Pharmacia income in 2002 of $10 million (£6.4 million) relates to the successful completion of Phase II studies/commencement of Phase III studies of CDP 870 in the rheumatoid arthritis indication.

The Pharmacia income in 2001 relates to $25 million (£17.5 million) of the $50 million initial payment received from the company for the co-development and co-promotion of CDP 870. The income recognised is in relation to the non-refundable, non-creditable signature payment for the licence. The remainder of the upfront payment will be offset against CDP 870 research and development expenditure incurred by the Group. Research and development expenditure in 2002 is shown net of £3.7 million (2001:£8.4 million) funding. The remaining balance of £5.4 million is held on the balance sheet within accruals and deferred income, detailed in note 18.

4. Operating loss

The operating loss is stated after charging:

		Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Depreciation	– owned assets	**12.8**	12.2
	– assets held under finance leases	**0.5**	0.4
Amortisation	– intangibles	**1.0**	–
Operating lease rentals	– land and buildings	**6.4**	3.7
	– other	**1.4**	0.7
Administrative expenses	– corporate and general administrative	**26.8**	24.9
	– restructuring costs	**–**	7.8
	– goodwill	**93.7**	92.6

The operating loss is also stated after the following material items discussed elsewhere in this report: £3.1 million provision release (see note 20), £0.9 million loss on disposal of equity investments (see note 16), £2.9 million establishment of new provision for self insurance (see note 20).

Fees paid to auditors

The following summarises the audit and non-audit fees paid to the auditor, KPMG Audit Plc:

	2002 £m	2001 £m
Audit fees	**0.3**	0.3
Fees for other services	**0.4**	0.4

Included in the fees for other services are £0.2 million in the year ended 31 December 2001 paid to KPMG Audit Plc and associates in respect of the acquisition of Thiemann. This fee was capitalised as part of the cost of the transaction.

The Company audit fee amounted to £25,000 (2001: £25,000).

5. Restructuring

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Redundancy	**–**	6.9
Thiemann integration	**–**	0.6
Other	**–**	0.3
	–	7.8

During 2001 the Group undertook a restructuring programme predominantly affecting the US business but also impacting the UK operations of the Group. In addition, on 1 October 2001 the Group acquired effective control of Thiemann resulting in certain integration costs.

As at 31 December 2002 £0.4 million of the amount charged to restructuring during 2001 remained unutilised.

6. Net interest receivable

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Bank interest receivable	**1.5**	4.0
Interest on PowderJect convertible loan note receivable	**2.2**	2.1
	3.7	6.1
Interest payable on $50m senior debt	**(2.2)**	(2.3)
Interest paid on finance leases	**(0.1)**	(0.2)
	(2.3)	(2.5)
Net interest	**1.4**	3.6

7. Staff costs

(i) Staff costs, including the emoluments of the Executive Directors, amounted to:

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Salaries	**79.4**	77.2
Social security costs	**7.4**	7.3
Other costs including pensions	**10.8**	9.4
	97.6	93.9

The 2001 presentation has been changed to correspond with the current year presentation.

(ii) The average number of staff employed by the Group, including Executive Directors, during the year was:

	Year to 31 Dec 2002 Number	Year to 31 Dec 2001 Number
Production	**569**	619
Sales and distribution	**679**	646
General and administration	**176**	156
Research and technical	**613**	608
	2,037	2,029

(iii) Details of the Remuneration of each Director, compensation for loss of office, pension entitlements and share options are included in the Remuneration report.

8. Taxation

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
UK corporation tax at 30% (2001:30%)	**0.7**	5.0
Utilisation of tax losses	**(0.7)**	(5.0)
UK corporation tax	**–**	–
Overseas – federal and state tax	**4.7**	2.1
– deferred tax	**2.9**	6.0
Overseas taxation	**7.6**	8.1
Deferred tax credit on goodwill	**(5.1)**	(5.2)
Taxation charge	**2.5**	2.9

The deferred tax credit on goodwill arises as a result of the adoption of FRS 19 Deferred Tax during 2001. The standard requires that a full provision is recognised for deferred tax liabilities including those in respect of goodwill on which tax benefits are obtained. This resulted in the Group recognising an additional deferred tax liability on the acquisition of Medeva of £15.3 million, recorded as a prior year adjustment in 2001, of which £5 million has been taken as a credit in 2000, £5.2 million has reversed in 2001 and the remaining £5.1 million has reversed in 2002.

The table below reconciles the actual tax charge to the expected tax charge, computed by applying the UK tax rate of 30% (2001: 30%) to the loss on ordinary activities before taxation:

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Expected tax credit at UK corporation tax rate	**(13.0)**	(15.8)
Permanent difference on goodwill	**23.3**	23.4
Restructuring costs	**(4.7)**	2.3
Difference in local tax rates	**0.3**	(3.5)
Utilisation of losses	**(1.3)**	(5.0)
Other	**0.1**	0.7
Current taxation charge	**4.7**	2.1

The deferred taxation provision at the end of the year is set out below:

	As at 31 Dec 2002 £m	As at 31 Dec 2001 £m
Accelerated capital allowances	**3.6**	6.1
Other non-current tax liabilities	**53.7**	59.4
	57.3	65.5

The movement in the provision in the year is set out in note 20.

There are taxation losses of approximately £291 million (2001: £278 million) which have not been recognised.

9. Earnings per share

The basic loss per share is based upon a loss of £46.0 million (2001: loss of £55.7 million) after deduction of accrued unpaid preference share dividends of £0.2 million (2001: £0.2 million) and a weighted average number of shares in issue of 275.4 million.

In addition for the years ended 31 December 2002 and 2001 the earnings per share before goodwill and restructuring items is provided which is based on a profit of £42.6 million (2001: profit of £39.5 million). This is reconciled to the loss of £46.0 million (2001: loss of £55.7 million) as set out below:

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Attributable loss	**(46.0)**	(55.7)
Goodwill amortisation	**93.7**	92.6
Restructuring costs	**–**	7.8
Tax on goodwill	**(5.1)**	(5.2)
Adjusted profit	**42.6**	39.5

The diluted earnings/(loss) per share takes into account the dilutive effect of share options and convertible preference shares. A reconciliation between the number of shares used in the calculation of the basic and diluted earnings/(loss) per share is shown in the table below:

	Year to 31 Dec 2002 Number m	Year to 31 Dec 2001 Number m
Basic weighted average number of shares	**275.4**	274.5
Share options	**0.6**	2.6
Convertible preference shares	**1.9**	1.9
Diluted number of shares	**277.9**	279.0

Due to the loss-making position of the Group, the exercise of share options and conversion of preference shares do not increase the basic loss per share and therefore according to FRS 14 the basic and diluted loss per share remain the same. The 2002 and 2001 earnings per share before goodwill and restructuring items has been adjusted for the dilutive effect.

10. Profit attributable to members of the holding company

In accordance with the exemption allowed by Section 230 of the Companies Act 1985 the Company has not presented its own profit and loss account.

The profit dealt with in the financial statements of the Company was £6.8 million (2001: profit £7.7 million).

11. Intangible fixed assets

	Goodwill £m	Intangible assets £m	Group £m
Cost			
At 1 January 2002	1,011.7	11.8	1,023.5
Dipentum (see below)	–	35.3	35.3
Other	–	1.4	1.4
Exchange	–	(0.4)	(0.4)
At 31 December 2002	**1,011.7**	**48.1**	**1,059.8**
Provisions for amortisation			
At 1 January 2002	525.2	–	525.2
Amortisation charged in the year	93.7	1.0	94.7
At 31 December 2002	**618.9**	**1.0**	**619.9**
Net book value			
At 31 December 2002	**392.8**	**47.1**	**439.9**
At 31 December 2001	486.5	11.8	498.3

The goodwill amortisation charge reflects a full year of ownership of Medeva (£88.3 million), Cistron (£0.7 million) and Thiemann (£4.7 million).

Included within intangible assets is a payment of £11.8 million to Abgenix for extensive access to its SLAM (Selective Lymphocyte Antibody Method) technology. Amortisation has not been charged on this in the year as the Directors consider that it has an indefinite life. As required by FRS 10, Goodwill and Intangible Assets, the Directors have undertaken an impairment review to support the carrying value. The SLAM technology has been combined with the Group's existing antibody technologies in order to expand the breadth of the antibody pipeline and extend the repertoire of drug targets. The technology is seen as core to Celltech's research activities and will continue to benefit the Group for the foreseeable future, accordingly Celltech has rebutted the presumption that useful economic life should be no longer than 20 years as permitted by FRS 10 Goodwill and Intangible Assets. As required by FRS 10 this matter will be kept under review and SLAM will be subject to an annual impairment review.

During July 2002, the Group announced that it had entered into arrangements with Pharmacia to access its product Dipentum in the US and European markets. The European product rights were acquired outright for $20 million. The US agreement provided Celltech with exclusive sales, marketing and distribution rights until January 2005 at which time Celltech can acquire the product outright at its option for $5 million. The substance of the US transaction is that of an outright acquisition settled through a series of payments which are capital in nature over the period to January 2005 followed by the $5 million exercise element. In accordance with FRS 5, Reporting the Substance of Transactions, the Group has capitalised the total of these payments of $35.4 million. The total capitalised for the European and US rights is thus $55.4 million (£35.3 million). The total capital payments made during 2002 amounted to £14.7 million. The Dipentum asset is being amortised over 15 years which is based on the Directors' estimate of useful economic life. In estimating the useful life the Directors have had regard to market projections, barriers to entry and risk of generic products and substitutes. Dipentum sales recorded by the Group in 2002 post acquisition are £4.6 million.

12. Tangible fixed assets

	Land & buildings		Plant & Machinery		
	Freehold £m	Long leasehold £m	Owned £m	Leased £m	Group Total £m
Cost					
At 1 January 2002	41.1	25.5	100.0	2.7	169.3
Additions	0.2	1.0	10.6	–	11.8
Disposals	–	–	(2.2)	(1.2)	(3.4)
Transfers	(1.9)	–	1.6	–	(0.3)
Exchange	(3.5)	(0.2)	(4.8)	–	(8.5)
At 31 December 2002	**35.9**	**26.3**	**105.2**	**1.5**	**168.9**
Depreciation					
At 1 January 2002	5.2	7.1	51.8	1.7	65.8
Provided during the period	1.0	1.3	10.8	0.2	13.3
Disposals	–	–	(1.9)	(0.7)	(2.6)
Transfers	–	–	(0.3)	–	(0.3)
Exchange	(0.5)	(0.1)	(1.9)	–	(2.5)
At 31 December 2002	**5.7**	**8.3**	**58.5**	**1.2**	**73.7**
Net book value					
At 31 December 2002	**30.2**	**18.0**	**46.7**	**0.3**	**95.2**
At 31 December 2001	35.9	18.4	48.2	1.0	103.5

Included in the above are items held under finance leases with a net book value of £1.4 million (2001:£2.4 million).

The Group has assets in the course of construction or commissioning which are not depreciated of £18.4 million (2001: £24.7 million).

13. Investments

Long-term investments

	Group		Company	
	31 Dec 2002 £m	31 Dec 2001 £m	**31 Dec 2002 £m**	31 Dec 2001 £m
Loan notes	**32.9**	31.0	**–**	–
Investment in companies	**7.0**	7.0	**–**	–
Investments in subsidiary undertakings	**–**	–	**199.3**	199.3
Loans to subsidiary undertakings	**–**	–	**93.6**	91.9
Own shares (held in Chiroscience ESOP)	**0.3**	0.3	–	–
	40.2	38.3	**292.9**	291.2

Movements in investments during the year are as follows:

	Group £m	Company £m
At 31 December 2001	38.3	291.2
Investments reclassified from other debtors	1.9	–
Movement in loans to subsidiary undertakings	–	1.7
At 31 December 2002	**40.2**	**292.9**

Loans to subsidiary undertakings have been subordinated by Celltech Group plc in favour of any third party liabilities that may accrue.

Investments include two five-year convertible loan notes issued by PowderJect Pharmaceuticals plc, one for £25 million issued on 2 October 2000 and a second for £6 million issued on 30 March 2001. These were issued at par, pay interest half yearly at 4% per annum and have a yield to maturity of 7%. Interest is being accrued and credited in the profit and loss account at the 7% rate. The loan notes are convertible by Celltech into PowderJect ordinary shares at a fixed price of £7.19. The loan notes can be redeemed at par by PowderJect, subject to the payment of a redemption premium of 13% per annum thereon. If the notes are not converted to PowderJect ordinary shares within five years of issue they will be redeemed at 117.6% of par value.

13. Investments continued

A loan note of SwF 4.25 million (£1.9 million) issued by Tillotts Pharma AG has been reclassified from other debtors to long term investments during the year. This loan note was issued to Medeva PLC on 26 April 1999. The loan note bears interest at 4% per annum and is repayable in annual installments dependant on the underlying adjusted profits of Tillotts Pharma AG, or at the latest by 31 December 2011. In line with the loan agreement no payments of principal have yet to be received, accordingly the loan note has been reclassified to reflect its long term nature.

In 2001, Celltech acquired a minority interest in Neogenesis for $10 million (£7.0 million). This investment is of a long-term strategic nature and is carried in the balance sheet at the lower of cost and net realisable value to the Group. In total 1,675,042 shares of common stock are owned by Celltech representing approximately a 7% shareholding in Neogenesis.

The following information relates to the Company's principal subsidiary undertakings

Celltech R&D Limited	England	Ordinary shares	100%*	Research and Development
Darwin Discovery Limited	England	Ordinary shares	100%*	
Chiroscience R&D Limited	England	Ordinary shares	100%*	
Celltech R&D Inc.	USA	Common stock	100%	
Cistron Biotechnology, Inc.	USA	Common stock	100%*	
Darwin Molecular Corporation	USA	Common stock	100%	Holding company
Celltech Pharma GmbH & Co KG	Germany	Ordinary shares	100%	Manufacture and sale of a range of branded specialty and generic pharmaceutical products
Celltech Pharmaceuticals Limited	England	Ordinary shares	100%	
Celltech Manufacturing Services Limited	England	Ordinary shares	100%	
International Medication Systems (UK) Limited	England	Ordinary shares	100%	
Celltech Pharma SA	Spain	Ordinary shares	100%	
Celltech Pharma SA	France	Ordinary shares	100%	
Celltech Pharma SA	Belgium	Ordinary shares	100%	
Celltech Nordic ApS	Denmark	Common stock	100%	
Medeva Pharma Schweiz AG	Switzerland	Ordinary shares	100%	Owns intellectual property relating to pharmaceutical products
Celltech Manufacturing CA, Inc.	USA	Common stock	100%	Manufacture and sale of generic pharmaceutical products
Celltech Pharmaceuticals, Inc.	USA	Common stock	100%	
Celltech Manufacturing, Inc.	USA	Common stock	100%	
Upstate Pharma, Inc.	USA	Common stock	100%	
Celltech Technologies, Inc.	USA	Common stock	100%	Commercial
Celltech US, Inc.	USA	Common stock	100%	Holding companies
Celltech Holdings, Inc.	USA	Common stock	100%	
Celltech Americas, Inc.	USA	Common stock	100%	
Celltech Pharma Europe Limited	England	Ordinary shares	100%	Owns licences and other intellectual property relating to pharmaceutical products
Medeva Limited	England	Ordinary shares	100%*	Holding company
Celltech Limited	England	Ordinary shares	100%	Treasury operations
Celltech Reinsurance (Ireland) Limited	Ireland	Common stock	100%	Insurance

* Directly held

A full list of subsidiaries will be annexed to the Company's next annual return filed with the Registrar of Companies.

14. Stock

	Group	
	31 Dec 2002 £m	31 Dec 2001 £m
Raw materials and consumables	**5.8**	6.6
Clinical trials material	**7.9**	6.6
Work in progress	**10.6**	13.2
Finished goods and goods for resale	**19.1**	19.3
	43.4	45.7

The clinical trials material amount comprises £7.5 million (2001: £5.0 million) of CDP 571 stock and £0.4 million (2001: £1.6 million) of other materials.

15. Debtors

	Group	
	31 Dec 2002 £m	31 Dec 2001 £m
Trade debtors	**50.0**	56.7
Other debtors	**13.7**	15.5
Prepayments and accrued income	**12.9**	10.5
	76.6	82.7

Other debtors include £5.9 million (2001: £5.7 million) which is recoverable in more than one year. The 2002 figure is made up of $3 million (£1.9 million) of deferred consideration in respect of the disposal of Armstrong, $3.3 million (£2.1 million) of funds moved to a RABBI trust account in accordance with pension scheme rules in the US and £1.9 million of rolled up PowderJect interest (see note 13).

16. Equity investments

	Group	
	31 Dec 2002 £m	31 Dec 2001 £m
Equity investments	**–**	2.0
	–	2.0

During 2002 the Group completed the process of disposing of the equity investments which had been inherited as part of the Medeva acquisition and which had been held by that company due to its research and development relationships. In total during 2002 the Group disposed of 937,000 shares in Targeted Genetics Corporation and 207,500 shares in Matrix Pharmaceuticals Inc. The disposals generated cash of £1.1 million and resulted in a loss of £0.9 million which has been recorded within research and development expenditure.

17. Cash and liquid resources

Celltech manages its funds in a portfolio of cash, short-term bank deposits and liquid resources, with maturities chosen to meet its short and medium-term requirements. The liquid resources are in fully negotiable instruments including treasury bills, certificates of deposit, bills of exchange and commercial paper and are managed by Royal London Cash Management and Royal Bank of Scotland.

	Group		Company	
	31 Dec 2002 £m	31 Dec 2001 £m	**31 Dec 2002 £m**	31 Dec 2001 £m
Cash	**81.1**	36.3	**22.3**	15.0
Liquid resources	**24.0**	54.1	**–**	–
	105.1	90.4	**22.3**	15.0

Included within cash and liquid resources of £105.1 million is an amount of £7.2 million in respect of the alternative financing arrangements for methylphenidate (see note 20). Of this amount £2.7 million is an insurance deposit (which will be returned to the Group with interest unless used to meet expenses of methylphenidate claims). The balance of £4.5 million is invested in a segregated fund in the name of the Company and is managed by one of the Group's fund managers.

18. Creditors: amounts falling due within one year

	Group	
	31 Dec 2002 £m	31 Dec 2001 £m
Trade creditors	24.5	36.9
Other creditors	33.9	25.6
Accruals and deferred income	53.0	53.5
Senior loan notes	31.2	–
Deferred consideration	11.7	–
Leasing obligations	0.8	1.5
Corporation taxes	5.0	1.7
	160.1	119.2

The senior loan notes were issued on 17 December 1998 by Medeva PLC, by means of a private placement with US qualified institutional investors. They are unsecured, carry a fixed coupon rate of 6.51% and are repayable in December 2003.

19. Creditors: amounts falling due after more than one year

	Group	
	31 Dec 2002 £m	31 Dec 2001 £m
Senior loan notes	–	34.5
Other creditors	2.9	4.0
Deferred consideration	8.9	5.8
Leasing obligations	0.9	1.3
	12.7	45.6

The deferred consideration amounts disclosed in both current and long-term creditors for 2002 relate to the amounts payable on the acquisition of the rights to Dipentum in the US and Europe (see note 11).

Other long-term creditors of £2.9 million (2001: £4.0 million) relate to pension obligations in the US (see note 27(ii) Pension fund deficit).

Obligations under finance and operating leases

	Group	
Finance leases	31 Dec 2002 £m	31 Dec 2001 £m
Amounts payable:		
Within one year	0.8	1.6
Between two and five years	1.1	1.5
Less interest element	(0.2)	(0.3)
	1.7	2.8

Operating leases

The Group has annual commitments under non–cancellable operating leases as follows:

	Land and buildings		Other	
	31 Dec 2002 £m	31 Dec 2001 £m	31 Dec 2002 £m	31 Dec 2001 £m
Operating leases which expire:				
Within one year	–	–	0.1	0.4
Between two and five years	1.0	1.1	1.4	1.0
Over five years	5.0	4.4	–	–
	6.0	5.5	1.5	1.4

The Company has no commitments under operating or finance leases.

20. Provisions for liabilities and charges

	Deferred tax (note 8) £m	Integration and other (i) £m	Non–insured claims (ii) £m	Group Total £m
Balance at 1 January 2002	65.5	11.4	–	**76.9**
Profit and loss account charge	(2.2)	0.6	2.9	**1.3**
Profit and loss account release	–	(1.6)	–	**(1.6)**
Utilised in year	–	(7.2)	–	**(7.2)**
Currency translation	(4.4)	–	–	**(4.4)**
Transferred from/(to) creditors	(1.6)	(0.2)	–	**(1.8)**
At 31 December 2002	**57.3**	**3.0**	**2.9**	**63.2**

There are no provisions for liabilities and charges in the Company.

(i) The remaining provision relates to restructuring charges booked during 2001 as described in note 5, an amount of £2.0 million paid to ML Laboratories in January 2003 (see below) and £0.6 million of new provisions.

(ii) Since 20 September 2001 the Group has been required to increase its levels of self insurance in respect of methylphenidate. Accordingly the Group has decided to retain a level of self insurance of up to £10 million and to establish its own captive insurer. Also it has entered into alternative financing arrangements in respect of an additional £40 million (see note 17). The Group has successfully placed external product liability insurance coverage for £100 million in excess of £50 million and thereafter is self insured. Whilst no methylphenidate claims have been received since 20 September 2001, the Group has provided £2.5 million based on an external review of the likely liability associated with incidents that may arise from past sales. A further £0.4 million has been provided for product recall and other liabilities for which the Group has no external insurance.

Settlement with ML Laboratories

During the year Celltech negotiated a settlement to terminate certain co-development relationships with Innovata Biomed, a subsidiary of ML Laboratories, which had been inherited with the Medeva acquisition. The terms of the termination included a £4.0 million payment to Innovata Biomed of which the final £2.0 million was paid in January 2003. The settlement allowed the release of the remaining provisions of £1.6 million held by the Group in relation to this matter. This provision had been established as part of the fair value adjustments on the Medeva acquisition. In total the settlement of this liability resulted in a credit of £3.1 million to the Group profit and loss account through the release of the provision discussed above and other stock and debtor provisions held in relation to the potential exposures.

21. Derivatives and other financial instruments

The disclosures below, with the exception of currency exposures, exclude short-term debtors and creditors where permissible under FRS 13. The following categories of short-term creditor are included below: borrowing and leasing obligations and foreign currency denominated deferred consideration.

The main risks arising from the Group's use of financial instruments and the strategy for managing these are set out below:

Interest rate risk

The Group has £31.2 million (US$50 million) of fixed borrowings repayable in December 2003 in the form of a private placement which carries an interest rate of 6.51% (2001: 6.51%).

Liquidity risk

The Group ensures that it has sufficient long-term funding and committed bank facilities to meet foreseeable peak borrowing requirements. As at 31 December 2002 the Group had £107.2 million of committed facilities (2001: £125.5 million) of which £76.0 million were undrawn (2001: £91 million).

Foreign currency risk

Approximately 50% (2001: 42%) of the Group assets (excluding goodwill) are in the US. The Group's only borrowing is denominated in US$ which provides a partial hedge against exchange gains or losses on these assets. However, the Group does not currently actively hedge against the effect of exchange rate differences resulting from the translation of foreign currency earnings but does, where appropriate, seek to hedge significant transaction exposures which includes hedging material surplus balances not denominated in the functional currency of the operating unit.

The Group uses financial derivatives, in particular forward currency contracts, to manage the financial risks associated with the Group's underlying business activity.

The Group does not undertake any trading activity in financial instruments.

21. Derivatives and other financial instruments continued

Credit risk

A large number of major international financial institutions are counterparties to the foreign exchange contracts and deposits transacted by the Group. Counterparties for such transactions entered into during the year have a long-term credit rating of A or better. The Group monitors its credit exposure to its counterparties, together with their credit ratings, and, by policy, limits the amount of agreements or contracts it enters into with any one party. The notional amounts of financial instruments used in interest rate and foreign exchange management do not represent the credit risk arising through the use of these instruments. The immediate credit risk of these instruments is represented by the fair value of contracts with a positive value.

Cash at bank and liquid resources principally comprise money market deposits, commercial paper and investments. The investments are with counterparties having strong credit ratings.

The Group considers the possibility of material loss in the event of non performance by a financial counterparty or the non payment of an account receivable to be unlikely, other than as already provided for in the accounts. However, the position is kept under review particularly having regard to the Group's loan notes and Armstrong debtor (see note 15).

(i) Interest rate risk

Interest rate risk profile of financial liabilities	At fixed interest 2002 £m	Interest free 2002 £m	Group Total 2002 £m	At fixed interest 2001 £m	Interest free 2001 £m	Group Total 2001 £m
Sterling	1.7	–	1.7	2.8	1.0	3.8
US dollar	31.2	23.5	54.7	34.5	3.0	37.5
Swiss Francs	–	–	–	–	5.8	5.8
Preference shares	3.4	2.4	5.8	3.4	2.2	5.6
	36.3	25.9	62.2	40.7	12.0	52.7

Fixed rate financial liabilities	Weighted average interest rates 2002 %	Weighted average period for which rates are fixed 2002 Months	Weighted average interest rates 2001 %	Weighted average period for which rates are fixed 2001 Months
Sterling	6.7	35	7.2	35
US dollars	6.5	12	6.5	24
Preference shares	6.9	3	6.9	15
	6.6	12	6.6	24

The interest-free liabilities are in relation to Dipentum deferred consideration, pension obligations provided in the US and accrued preference share dividends. Preference shares and the related dividend accrual (see note 25) have been presented, in accordance with FRS 13, as financial liabilities of the Group.

The financial liabilities of the Group comprised:

	At 31 Dec 2002 £m	At 31 Dec 2001 £m
Borrowings	31.2	34.5
Finance leases	1.7	2.8
Deferred consideration	20.6	5.8
Other creditors	2.9	4.0
Preference shares	5.8	5.6
	62.2	52.7

Interest rate risk profile of financial assets	At fixed interest rates £m	At floating interest rates £m	Interest free £m	Total £m
Sterling	31.0	32.5	1.9	65.4
US dollar	–	59.8	11.0	70.8
Euro	–	12.7	–	12.7
Swiss Francs	1.9	0.1	–	2.0
At 31 December 2002	32.9	105.1	12.9	150.9
Sterling	31.0	39.9	1.1	72.0
US Dollar	–	41.3	13.6	54.9
Euro	–	9.2	–	9.2
Swiss Francs	–	–	–	–
At 31 December 2001	31.0	90.4	14.7	136.1

21. Derivatives and other financial instruments continued

Floating rate financial assets comprise cash deposits in the money market, certificates of deposit and commercial paper. These include deposits where the interest rate is fixed until maturity but, as the original maturity is less than one year, they are classified as floating fixed rate financial instruments. Fixed rate deposits comprise £32.9 million (2001: £31 million) of convertible loan notes (see note 13 for duration) carrying a weighted average interest rate to maturity of 6.8% (2001: 7%). The interest free assets in the current year relate to the investment in Neogenesis (see note 13) and long-term debtors (see note 15). In 2001 the interest free assets consisted of the Neogenesis investment, the equity investments which were held by the Group (see note 16) and long-term debtors.

In the disclosures above and in (v) below, prior year figures have been adjusted to include preference shares and long-term debtors in line with the current year presentation.

(ii) Currency exposures

The table below shows the Group's transactional currency exposures that give rise to net currency gains and losses in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating unit involved.

	Net monetary assets/ (liabilities)			
	US $ £m	Euro £m	Other £m	Total £m
At 31 December 2002	**(5.9)**	**6.8**	**(0.2)**	**0.7**
At 31 December 2001	–	2.9	0.1	3.0

(iii) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities as at 31 December 2002 was as follows:

	2002 £m
In one year or less	**49.5**
In more than one year but not more than two years	**6.3**
In more than two years but not more than five years	**6.4**
	62.2

(iv) Committed borrowing facilities

The facilities available as at 31 December 2002 were as follows:

	Committed At 31 Dec 2002 £m	Undrawn At 31 Dec 2002 £m
Revolving credit facility	**65.0**	**65.0**
$50m Senior loan notes	**31.2**	**–**
Overdraft facility	**11.0**	**11.0**
	107.2	**76.0**
Expiring in less than one year	**42.2**	**11.0**
Expiring in more than two years but less than five	**65.0**	**65.0**

The committed bank facilities are subject to certain financial covenants which are tested twice annually. The Group currently has no reason to believe that it will not be able to continue to meet the requirements of these covenants. The undrawn revolving credit facility has been renegotiated during the year and is now available until December 2005.

(v) Fair value of financial instruments

	Book Value		Fair Value	
	At 31 Dec 2002 £m	At 31 Dec 2001 £m	At 31 Dec 2002 £m	At 31 Dec 2001 £m
Primary financial instruments:				
Cash and short–term deposits	**105.1**	90.4	**105.1**	90.4
Convertible loan notes	**32.9**	31.0	**32.9**	31.0
Investment in Neogenesis	**7.0**	7.0	**7.0**	7.0
Long-term debtors	**5.9**	5.9	**5.7**	5.7
Other creditors	**(2.9)**	(4.0)	**(2.9)**	(4.0)
Finance leases	**(1.7)**	(2.8)	**(1.7)**	(2.8)
Senior loan notes	**(31.2)**	(34.5)	**(31.2)**	(34.5)
Deferred consideration	**(20.6)**	(5.8)	**(20.6)**	(5.8)
Equity investments	**–**	2.0	**–**	2.0
Derivative financial instruments – forward exchange contracts	**–**	–	**8.8**	1.9
Preference shares	**(5.8)**	(5.6)	**(6.7)**	(16.3)
	88.7	83.6	**96.4**	74.6

21. Derivatives and other financial instruments continued

Market values have been used to determine the fair value of short–term deposits, equity investments and the derivative financial instruments. The Directors have assessed the fair value of the senior loan notes and convertible loan stock based on (i) the availability of alternative finance for the loan note and (ii) the risk premium attached to the convertible notes. It was determined in both cases that the book values fairly represented the actual value to the Company as at 31 December 2002. Neogenesis is an unlisted company and as such it is difficult to obtain a fair market value. However, the Directors do not consider that there has been any material change in the value of the Group's investment in this entity. Preference shares are convertible into Celltech ordinary shares at £3. The Group's share price as of 31 December of each period has been used to determine the fair value of the preference shares. The share price at 31 December 2002 was £3.45 (2001: £8.74). Other amounts are determined to be equal to their book values.

(vi) Gains and losses on hedges

No financial instruments were held for the purposes of dealing or other financial instrument trading activities.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The table below shows the extent to which the Group has unrecognised gains on financial instruments.

	£m
Unrecognised gains at 31 December 2001	1.9
Additional gains on unrecognised positions at 31 December 2001 recognised in 2002	2.4
Total gains recognised in 2002	(3.7)
Unrecognised gains in the year on hedges taken out in 2001	3.2
Unrecognised gains in the year on hedges taken out in 2002	5.0
Total unrecognised gains at 31 December 2002	8.8

All the unrecognised gains as at 31 December 2002 are expected to be recognised during 2003. The unrecognised gains as at 31 December 2001 included £0.6 million of gains which are expected to be recognised in 2003.

22. Acquisition of subsidiary undertakings

Thiemann

On 1 October 2001, the Group acquired effective control of Thiemann SA, the parent company of Celltech Pharma GmbH & Co KG (Thiemann) in Germany.

The total cost of the acquisition was DM89.8 million (£28.8 million) and in addition Celltech inherited a loan of DM16.9 million (£5.4 million) that was immediately repaid on acquisition, and cash of DM9.6 million (£3 million). The total net cash outflow was thus DM97.1 million (£31.2 million).

Goodwill of £32.6 million has been capitalised and is being amortised over seven years, which is based on the Directors' estimate of useful economic life.

The assets and liabilities of Thiemann acquired were as follows:

	Total fair value As reported in 2001 £m
Fixed assets – tangible	1.4
– intangible	–
Stocks	1.8
Debtors	1.3
Cash	3.0
Creditors	(1.8)
Provisions for liabilities	(3.7)
Loans	(5.4)
Net liabilities acquired	(3.4)
Total consideration	28.8
Costs of acquisition	0.4
Net liabilities acquired	3.4
Goodwill	**32.6**

There have been no further fair value adjustments recorded during 2002.

23. Businesses held for resale

During the first quarter of 2001 the Group completed the process of disposing of the businesses it had identified for resale upon the acquisition of Medeva.

The total receipts in 2001 from these disposals (primarily Armstrong) were £15.3 million.

24. European asset sales

During 2001 the Group disposed of its Belgian fine chemical business and French 'over the counter' products for net proceeds of £3.0 million.

25. Shareholders' funds

Group	Called up share capital £m	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2002	141.0	81.6	621.2	(224.6)	619.2
Proceeds of exercise of Celltech share options	0.3	1.7	–	–	2.0
Currency translation difference on foreign currency net investments and net borrowings	–	–	–	(11.0)	(11.0)
Accrual for unpaid preference share dividends transferred to other reserves	–	–	0.2	(0.2)	–
Net transfer to profit and loss account	–	–	–	(45.8)	(45.8)
At 31 December 2002	**141.3**	**83.3**	**621.4**	**(281.6)**	**564.4**

Other reserves arise from the reorganisation of the Group structure on 1 October 1997, the accrual for unpaid preference share dividends and the acquisitions of Darwin Molecular Corporation, Medeva and Cistron, together with merger adjustments in relation to the merger of Celltech and Chiroscience, and the reserve transfer on disposal of ChiroTech.

The cumulative goodwill written off directly to reserves is £60.5 million (2001: £60.5 million).

Company	Called up share capital £m	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2002	141.0	81.6	2.2	81.4	306.2
Proceeds of exercise of share options	0.3	1.7	–	–	2.0
Accrual for unpaid preference share dividends transferred to other reserves	–	–	0.2	(0.2)	–
Net transfer from profit and loss account	–	–	–	7.0	7.0
At 31 December 2002	**141.3**	**83.3**	**2.4**	**88.2**	**315.2**

An accrual has been made for dividends not paid on convertible preference shares. Preference share dividends become payable in cash only if and to the extent that the consolidated balance sheet of Celltech Group plc shows positive distributable reserves.

The accrual of £2.4 million is held in other reserves since it is likely that the dividends will be discharged at the time of conversion of the preference shares by the issue of additional ordinary shares.

25. Shareholders' funds continued

Analysis of shareholders' funds

	Group		Company	
	31 Dec 2002 £m	31 Dec 2001 £m	**31 Dec 2002 £m**	31 Dec 2001 £m
Equity interests	**558.6**	613.6	**309.4**	300.6
Non equity interests	**5.8**	5.6	**5.8**	5.6
Shareholders' funds	**564.4**	619.2	**315.2**	306.2

Non equity interests comprise 6.9% convertible redeemable preference shares and accrued unpaid preference share dividends.

Analysis of share capital

	31 Dec 2002 Number	31 Dec 2001 Number
Ordinary shares of 50p each	**373,064,416**	373,064,416
6.9% convertible redeemable cumulative preference shares of £1 each	**3,467,790**	3,467,790

Allotted, called up and fully paid

	31 Dec 2002 Number	31 Dec 2001 Number	**31 Dec 2002 £m**	31 Dec 2001 £m
Ordinary shares of 50p each	**275,527,304**	274,967,263	**137.9**	137.5
6.9% convertible redeemable cumulative preference shares of £1 each	**3,467,790**	3,467,790	**3.4**	3.4
			141.3	140.9

The preference shares have a term of 10 years, and can be converted to ordinary shares at a price of £3 per ordinary share at any time until 31 March 2003.

During the period 560,041 ordinary shares were issued fully paid upon the exercise of share options. The cash consideration received amounted to £2.0 million and resulted in an increase in the share premium account of £1.7 million.

Share options outstanding to employees of the Group as at 31 December 2002 are as follows:

(i) Celltech Executive Share Option Schemes

1,969 employees hold options (including unapproved options) to subscribe for up to 10,153,665 shares at prices ranging between 205p and 1295p per share exercisable between 2003 and 2012. This includes both Chiroscience and Medeva originating Executive options. Included in this figure are 46,227 options held under the Chiroscience ESOP Trust.

(ii) Celltech Savings Related Share Option Schemes (includes Celltech, Chiroscience and Medeva originating schemes)

549 employees hold options to subscribe for up to 762,975 ordinary shares at prices between 238p and 948p per share exercisable between 2002 and 2009.

(iii) Deferred Bonus Plan

13 employees hold options to subscribe for up to 192,316 shares. The shares are held under the Celltech Group plc Employee Share Trust.

26. Financial commitments

(i) Capital expenditure

	31 Dec 2002 £m	31 Dec 2001 £m
Contracted	**1.2**	1.8

(ii) Manufacturing capacity

The Group has entered into a significant manufacturing capacity arrangement discussed below:

Biochemie GmbH

Celltech has contracted Biochemie GmbH, a subsidiary of Novartis, as a long-term source for the manufacture of its microbially produced antibody products (including CDP 870). Celltech has reserved manufacturing capacity beginning 1 January 2004 and ending 31 December 2010. Celltech has potential minimum take or pay obligations under this agreement of approximately £38 million.

(iii) Leasing

Operating and finance lease commitments are disclosed in note 19.

27. Pension arrangements

The Group operates a number of pension schemes, the majority being defined benefit arrangements. Details of the Group's schemes are as follows:

(i) Pension schemes under SSAP 24

The charge for the year comprises:	31 Dec 2002 £m	31 Dec 2001 £m
Celltech Pension and Life Assurance Scheme and Medeva Plans (MUKPP & MSEPP)	**2.2**	2.2
US qualified scheme	**1.1**	1.0
US non–qualified scheme	**0.2**	0.5
Thiemann plan	**0.5**	0.1
Defined contribution schemes (US and UK)	**1.6**	1.8
	5.6	5.6

The defined contribution schemes relate primarily to the Celltech Group Personal Pension Plan (CGPPP) and US 401K plans. The CGPPP was introduced as of 1 January 2000 for all new UK employees of the Group. The Celltech Pension and Life Assurance Scheme, the Medeva UK Pension Plan and the Medeva Senior Executive Pension Plan are all closed to new members. These schemes were merged on 18 September 2002 (see below).

Under the CGPPP the Group contributes 8% of salary to individual plans for employees.

The contributions outstanding at the end of the financial year in respect of the Group's UK pension schemes were £0.2 million. These were paid in accordance with trust rules during January 2003.

Details of the Group's defined benefit schemes are set out below:

UK Schemes

During the year the Group operated three UK defined benefit schemes, the Celltech Pension and Life Assurance Scheme ('CP&LAS'), the Medeva UK Pension Plan ('MUKPP') and the Medeva Senior Executive Pension Plan ('MSEPP').

On 18 September 2002 the MUKPP and the MSEPP plans were merged into the CP&LAS. A full actuarial valuation was then undertaken as at 30 September 2002.

The main financial assumptions for the 30 September 2002 valuation were as follows:

Rate of return	6.7%
Rate of increase in salaries	3.8%
Rate of increase of pension in payment (excess over GMP)	2.3%
Post–88 GMP	1.8%
Asset valuation method	Market value
Liability valuation	Attained age

27. Pension arrangements continued

The assets and liabilities of the schemes were as follows:

	30 Sep 2002 £m
Assets	**33.3**
Liabilities	**(38.9)**
Deficit in CP&LAS	**(5.6)**

The CP&LAS is thus funded at 86% of the liabilities.

The attained age methodology is used to obtain the actuarial valuation for liabilities. The attained age methodology is the most appropriate in the circumstances of this scheme, which has been closed to new members.

The CP&LAS has been funded in accordance with actuarial advice in all periods and consequently there is no material asset or liability arising from the pension cost and the amounts actually paid into the scheme.

On the basis of the actuarial reviews the current contribution rate paid by the Group is 14.7% for the scheme. This contribution rate includes 3.3% to refinance the deficit in the scheme over the average future service lifetime of the active membership. Pension costs are not expected to increase significantly as a result of the revised funding requirements.

US Qualified Scheme

The most recent valuation of the plan under US accounting standards was carried out on 31 December 2002. At the valuation date the market value of the assets of the plan was £7.6 million and the liabilities were £10.7 million. Thus the assets of the plan represented 71% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings.

On the basis of the above valuation and the December 2001 valuation, contribution rates have been agreed with the schemes actuary and are funded at the maximum levels permissible whilst still retaining tax allowable status.

The funding for the US plan in respect of the year that has just ended is typically not paid to the trust until several months after the year end, which is in accordance with US regulations on this matter. The anticipated funding for 2002 is £1.0 million (2001: £1.2 million) which would reduce the underfunding reported above.

The projected unit method was used to derive the valuation above and the key actuarial assumptions are identical to those set out in (ii) below.

The US Qualified Scheme was frozen as at 31 December 2002 and as such no further benefits accrue to the members.

US Unqualified Scheme

The most recent valuation of the scheme under US accounting standards was carried out on 31 December 2002. The liabilities of this unfunded scheme at this date were valued at £2.6 million. However, the Group is carrying a liability in creditors of £2.9 million against this obligation, and also holds a 'RABBI' trust account of £2.1 million for this liability (see page 72).

The projected unit method was used to derive the valuation above and the key actuarial assumptions are identical to those set out in (ii) below.

The US Unqualified Scheme was frozen as at 31 December 2002 and as such no further benefits accrue to the members.

Thiemann Plan

The most recent valuation of the plan was carried out as at 31 December 2002 under IAS 19. At the valuation date the market value of the assets of the plan was £5.5 million and the liabilities were £11.0 million. Thus the assets of the plan represented 50% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings. However, the Company also holds separate insurance assets of £5.6 million outside of the scheme to cover the deficit. Thus in total there are assets of £11.1 million available to cover the liability of £11.0 million (as set out in the FRS 17 disclosures).

27. Pension arrangements continued

The key actuarial assumptions that were used are as set out in (ii) below.

(ii) FRS 17 disclosures

The Group has adopted FRS 17 Retirement Benefits to the extent of the mandated disclosure requirements for the year ended 31 December 2002. FRS 17 is more prescriptive than SSAP 24 in the assumptions and methodology that must be used in order to assess actuarial liabilities. In particular FRS 17 prescribes the use of the projected unit method of valuation and a discount rate obtained from corporate bonds rather than equities. Because of the low average age of the members of the CP&LAS the Group considers the SSAP 24 valuation to be more relevant. The results of the FRS 17 review are presented below.

Qualified independent actuaries updated the actuarial valuations of the major defined benefit schemes operated by the Group to 31 December 2002. The main financial assumptions used in this update were as follows:

	2002			2001		
Assumptions	**UK %**	**US %**	**Germany %**	UK %	US %	Germany %
Inflation assumptions	**2.3**	**3.0**	**2.0**	2.6	3.0	2.0
Rate of increase in salaries	**3.8**	**4.1-4.6**	**3.0**	4.1	5.0	3.0
Rate of increase in pension payment	**1.9-2.3**	**–**	**2.0**	2.0-2.6	–	2.0
Discount rate	**5.5**	**6.7**	**6.0**	5.9	7.0	6.0
Long term rate of return expected at 31 December						
Equities	**7.5**	**9.0**	**n/a**	7.2	10.0	n/a
Bonds	**4.5**	**6.7**	**n/a**	5.0	7.0	n/a
Insurance	**4.5**	**n/a**	**3.5**	n/a	n/a	3.5

Pension fund deficit

The pension fund deficit set out below under FRS 17 is as if this standard were fully applied. However, under the current accounting methodology (SSAP 24) there are assets and provisions within the balance sheet at 31 December 2002 that would offset the effect on net assets (see below) of this deficit in the event of a restatement under FRS 17. If FRS 17 had been adopted for the year ended 31 December 2002 the Group's net assets per the balance sheet would be reduced by £18.4 million. Further explanation of this adjustment is included below.

The assets and liabilities of the major defined benefit schemes operated by the Group at 31 December 2002 as calculated in accordance with FRS 17 are shown below. In addition, the effect a restatement would have, if FRS 17 were fully adopted, on the Group's net assets as currently stated under SSAP 24 is set out below.

	2002				2001			
	UK £m	**US £m**	**Germany £m**	**Total £m**	UK £m	US £m	Germany £m	Total £m
Scheme assets								
Equities	**29.5**	**4.2**	**–**	**33.7**	38.5	5.7	–	44.2
Bonds	**2.0**	**3.4**	**–**	**5.4**	1.6	2.8	–	4.4
RABBI trust account	**–**	**2.1**	**–**	**2.1**	–	2.5	–	2.5
Insurance	**3.9**	**–**	**11.1**	**15.0**	–	–	10.0	10.0
Total fair value of assets	**35.4**	**9.7**	**11.1**	**56.2**	40.1	11.0	10.0	61.1
Present value of scheme liabilities	**(52.1)**	**(13.3)**	**(11.0)**	**(76.4)**	(48.0)	(15.7)	(9.6)	(73.3)
Deficit in the scheme	**(16.7)**	**(3.6)**	**0.1**	**(20.2)**	(7.9)	(4.7)	0.4	(12.2)
Related deferred tax credit	**–**	**1.5**	**–**	**1.5**	–	–	–	–
Net pension fund scheme (deficit)/surplus under FRS 17	**(16.7)**	**(2.1)**	**0.1**	**(18.7)**	(7.9)	(4.7)	0.4	(12.2)
Adjustments for existing assets and provisions under SSAP 24								
Assets, net of related deferred tax	**–**	**(2.1)**	**(0.5)**	**(2.6)**	–	(2.5)	(0.4)	(2.9)
Provision, net of deferred tax	**–**	**2.9**	**–**	**2.9**	1.0	3.0	–	4.0
Adjustment to FRS 17, net of related deferred tax	**(16.7)**	**(1.3)**	**(0.4)**	**(18.4)**	(6.9)	(4.2)	–	(11.1)
Net assets as currently disclosed	**n/a**	**n/a**	**n/a**	**564.4**	n/a	n/a	n/a	619.2
Net assets as adjusted if FRS 17 were fully adopted	**n/a**	**n/a**	**n/a**	**546.0**	n/a	n/a	n/a	608.1

The 'RABBI' trust account is held in the Group's own name and is shown within other debtors in note 15. This account can only be used by the Group to pay the pension liabilities of the US Unqualified Scheme, except in the case of bankruptcy when it would become part of the general pool of assets and pensioners would rank as ordinary creditors.

27. Pension arrangements continued

Included within the insurance assets held in Germany are £5.6 million of insurance arrangements in the Company's own name which were written in order to cover the pension deficits that would otherwise exist in the pension scheme. There is no intention to use these assets for any purpose other than to cover the deficit and accordingly they have been shown as part of the available assets. An adjustment of £0.5 million is required in the German scheme to arrive at the net FRS 17 position. This is in order to remove the insurance asset held in the Company's own name and to remove an estimate of the pension deficit under current GAAP. This net debtor is shown within other debtors in note 15.

	2002			
	UK £m	US £m	Germany £m	Total £m
Operating profit				
Current service cost	2.0	1.1	0.2	3.3
Past service costs	0.2	–	–	0.2
Gain on curtailment	–	(2.6)	–	(2.6)
Loss on RABBI trust	–	0.2	–	0.2
Settlement on bulk transfer	(0.5)	–	–	(0.5)
Total operating charge/(income)	1.7	(1.3)	0.2	0.6
Finance expense				
Expected return on pension scheme assets	(2.8)	(0.7)	(0.2)	(3.7)
Interest charge	2.9	1.0	0.6	4.5
Net expense	0.1	0.3	0.4	0.8
Loss/(gain) before taxation	1.8	(1.0)	0.6	1.4

	2002			
	UK £m	US £m	Germany £m	Total £m
Consolidated statement of recognised gains and losses				
Actual return less expected return on pension schemes' assets	(6.2)	(1.9)	0.3	(7.8)
Experience gains/(losses) arising on the schemes' liabilities	0.3	0.7	(0.4)	0.6
Changes in assumptions underlying the present value of the schemes' liabilities	(3.8)	(0.5)	–	(4.3)
Actual loss recognised	(9.7)	(1.7)	(0.1)	(11.5)

Additional disclosures required by FRS 17

	2002			
	UK £m	US £m	Germany £m	Total £m
Difference between the expected and actual return on scheme assets:				
Amount	(6.1)	(1.8)	0.3	(7.6)
Percentage of scheme assets	17%	19%	2%	14%
Experience gains and losses on scheme liabilities:				
Amount	0.3	0.7	(0.4)	0.6
Percentage of the present value of scheme liabilities	1%	5%	4%	1%
Total amount recognised in statement of total recognised gains and losses:				
Amount	(9.7)	(1.7)	(0.1)	(11.5)
Percentage of the present value of scheme liabilities	19%	13%	1%	15%

27. Pension arrangements continued

The movement in deficit during the year ended 31 December 2002 is as follows:

	2002			
	UK £m	US £m	Germany £m	Total £m
(Deficit)/surplus in schemes at beginning of the year	**(7.9)**	**(4.7)**	**0.4**	**(12.2)**
Current service cost	**(2.0)**	**(1.1)**	**(0.2)**	**(3.3)**
Contributions	**2.7**	**1.3**	**0.4**	**4.4**
Past service costs	**(0.2)**	**–**	**–**	**(0.2)**
Other finance income	**(0.1)**	**(0.3)**	**(0.4)**	**(0.8)**
Gains on curtailment	**–**	**2.6**	**–**	**2.6**
Settlement on bulk transfer	**0.5**	**–**	**–**	**0.5**
Actuarial loss on investments	**(9.7)**	**(1.7)**	**(0.1)**	**(11.5)**
Loss on RABBI trust	**–**	**(0.2)**	**–**	**(0.2)**
Exchange	**–**	**0.5**	**–**	**0.5**
(Deficit)/surplus in schemes at the end of the year	**(16.7)**	**(3.6)**	**0.1**	**(20.2)**

Reserves note	2002 Total £m
Profit and loss reserve excluding FRS 17 additional pension liability	**(281.6)**
FRS 17 additional pension liability	**(18.4)**
Profit and loss reserve	**(300.0)**

28. Contingent liabilities

(a) The Group has unsecured and undrawn overdraft facilities of £11 million net (see note 21). The Company has provided guarantees to finance companies in respect of finance leases to Celltech R&D Limited not exceeding £2,534,623 (2001: £2,782,062) of which £1,406,943 (2001: £1,781,411) has been utilised. The Company has also provided guarantees to Zurich of £15 million in respect of reinsurance and £8 million to Biochemie in respect of manufacturing capacity arrangements.

(b) The principal litigation in which the Group has been involved in 2002 is discussed below. In common with most trading companies, Celltech and various of its subsidiary undertakings are the subject of a number of legal claims or potential claims against the Group, the outcome of which cannot at present be determined. Provision has been made in these accounts for all liabilities, which might be reasonably expected to materialise from these claims.

(i) Ionamin

In July 1997 significant health concerns were raised over the use of the so–called 'fen–phen diet' (co–prescription of fenfluramine and phentermine). These concerns resulted in the voluntary withdrawal from the market of fenfluramine and a related drug dexfenfluramine in September 1997. These withdrawals were followed by the commencement of a significant number of lawsuits in the US against manufacturers and prescribers of fenfluramine, dexfenfluramine and phentermine. The most common allegation is that the 'fen–phen diet' caused heart valve problems, neurological dysfunction and, much less frequently, primary pulmonary hypertension, a rare, frequently fatal disease of the lungs. Celltech has been named in approximately 6000 of these cases, approximately 900 of which were pending as at 31 December 2002. The Group's involvement derives from the sale by a Celltech subsidiary, since 2 July 1996, of Ionamin, the phentermine prescription pharmaceutical acquired from Fisons Corporation (Fisons) on that date. At 12 March 2003 the Group had been formally dismissed from approximately 5,100 of these cases without payment of any sums by way of damages or costs to third parties, and dismissals of more than 700 additional cases, also without payment, were filed but were not yet effective.

Celltech denies liability on a number of grounds, including fundamentally that Ionamin does not cause the health conditions complained of. Ionamin has been marketed since 1959 and the FDA did not request that Ionamin or any other phentermine be withdrawn from the market. Moreover, Celltech believes it will be indemnified for any unanticipated liability by Fisons (for Ionamin sold prior to 2 July 1996) and by Celltech's product liability insurance carriers (for Ionamin sold after 2 July 1996). Celltech's defence costs are being paid by Fisons and its insurance carriers as required by their contractual indemnities. Fisons' indemnity obligations are guaranteed by Rhone Poulenc Rorer Inc, now part of Aventis Pharmaceuticals.

Based on the merits of its defences and based on the third party insurance coverage benefiting Celltech discussed above, Celltech believes that the ultimate outcome of this litigation will not have a material adverse effect on its financial position and results of the operations. However, if the Company were ultimately held liable in these lawsuits and the indemnities and insurance discussed above were not available or were inadequate, the ultimate liability could have a material adverse effect (a reasonable estimate of which cannot be made at this time) on the financial position and results of operations of the Company.

(ii) MedImmune

In 1998 Celltech granted to MedImmune Inc a worldwide non-exclusive licence to use the patents in relation to its humanized antibody preparation, pallvizumab (sold by MedImmune under the trade name Synagis). Celltech believes that MedImmune's Synagis product comes within the scope of its patent and that accordingly MedImmune owes significant royalties to Celltech. MedImmune dispute this and have refused to pay any royalties. Accordingly Celltech have commenced two legal actions against MedImmune – one in the US (the major market for Synagis) and the other in Germany (where Synagis is manufactured). Both actions are being heard in the UK Courts.

The status of the two claims is as follows:

The US claim

In October 2002, an application was made by MedImmune to have the action dismissed on a preliminary point of law. The application of US law in this case depended on two issues. Although the Court found in favour of Celltech on the major issue, it found in MedImmune's favour on the subsidiary issue and consequently an Order was made in November 2002 dismissing this action. Celltech have lodged an appeal against the judgement of the Court, which is due to be heard in early June 2003. If the appeal is successful, Celltech's claim against MedImmune will be reinstated and the litigation continues to trial.

The German claim

This litigation was commenced in September 2002 and is still at the early stages. Statements of case have been exchanged and the parties are currently discussing the timetable for the rest of the proceedings.

Since Celltech is the claimant in both these actions, the only potential liability Celltech has under this litigation is in respect of MedImmune's legal costs should the claims fail. In dismissing the US action, the Court ordered that Celltech pay MedImmune's legal costs of the action so far, and full provision for these has been made in the financial year to 31 December 2002.

(iii) 69kD

Celltech is the owner of patents for 69kD, the Bordetella pertussis protein known as Pertactin. Celltech has granted GlaxoSmithKline an exclusive worldwide licence to use the patents. Under the terms of the licence, Celltech has the first option to take proceedings to enforce the patents. Litigation has arisen in Europe involving Celltech's patents and acellular pertussis vaccines owned by Chiron and its subsidiaries. On 23 July, 1998, Celltech issued infringement proceedings against Chiron SpA (and a local chemist shop) in Milan, Italy for infringement of one of Celltech's patents relating to the 69kD antigen and seeking an injunction to prevent Chiron from marketing its product. Chiron is defending that action, and has counterclaimed for a declaration of invalidity of the patent. Court experts have been appointed, but the date when their report will be provided is not known. This patent is also subject to opposition proceedings in the European Patent Office brought by Chiron on 22 January, 1997. The European Patent office has determined in a decision issued in November 2000 that the patent should be revoked. This decision of the EPO is the subject of an appeal by Celltech.

(iv) Lonza

On 7 March 2003 Celltech gave notice terminating its commercial supply agreement with Lonza Biologics Plc (Lonza) for CDP 571 under terms which provide that no termination fees shall be payable. Lonza is disputing Celltech's basis for termination and the parties are in discussion with a view to resolving the matter. Celltech has provided within creditors for management's best estimate of the amounts expected to materialise from the dispute.

(c) Self insurance

Since 20 September 2001, the Group has been required to increase its levels of self insurance in respect of methylphenidate. Accordingly, the Group's external insurance cover is limited to losses in excess of £50 million not exceeding £150 million. Losses under £50 million and over £150 million effectively have to be self insured by the Group.

While no methylphenidate claims have been received since 20 September 2001, the Group has provided for £2.5 million through its captive insurance company in respect of estimated costs of defending expected claims (see note 20).

29. Consolidated cash flow statements

Reconciliation of operating loss to net cash outflow from operating activities

	Year to 31 Dec 2002 £m	Year to 31 Dec 2001 £m
Operating loss	**(44.7)**	(56.2)
Restructuring	**–**	7.8
Operating loss before restructuring costs	**(44.7)**	(48.4)
Depreciation	**13.3**	12.6
Goodwill amortisation	**93.7**	92.6
Intangibles amortisation	**1.0**	–
Decrease/(increase) in stocks	**0.1**	(5.5)
Decrease/(increase) in debtors	**0.9**	(26.2)
(Decrease)/increase in creditors	**(9.7)**	20.5
Net cash inflow from operating activities before restructuring costs	**54.6**	45.6
Outflow relating to restructuring costs	**(5.2)**	(6.9)
Net cash inflow from operating activities	**49.4**	38.7

Analysis of changes in net funds

	At 1 Jan 2002 £m	Cash flow £m	Exchange movements £m	At 31 Dec 2002 £m
Cash	36.3	50.9	(6.1)	**81.1**
Liquid resources	54.1	(30.1)	–	**24.0**
Finance leases	(2.8)	1.1	–	**(1.7)**
Loans	(34.5)	–	3.3	**(31.2)**
Net funds	53.1	21.9	(2.8)	**72.2**

Pro-forma Condensed Combined Profit and Loss Accounts

On 15 June 1999 Celltech and Chiroscience announced plans for the merger of their respective businesses. The merger took effect on 3 August 1999. On 26 January 2000, the Group acquired Medeva PLC. Due to the significant impact to the financial position of the Group caused by these two transactions the Directors believe that shareholders would benefit from certain additional pro-forma financial information.

Presented below is a four year summary of the Group, on a pro-forma basis as if the Chiroscience and Medeva businesses had been part of the Group for the entire period.

	Total continuing operations			
	Year to 31 Dec 2002	Year to 31 Dec 2001	Year to 31 Dec 2000	Year to 31 Dec 1999
Turnover	**329.6**	303.1	250.2	243.4
Cost of sales	**(94.7)**	(83.5)	(74.1)	(72.5)
Gross profit	**234.9**	219.6	176.1	170.9
Investment in research and development	**(95.1)**	(90.7)	(78.5)	(80.9)
Selling, marketing and distribution expenses	**(71.5)**	(78.6)	(52.0)	(57.1)
Administrative expenses	**(27.4)**	(24.9)	(26.7)	(33.4)
Operating profit/(loss) before other income	**40.9**	25.4	18.9	(0.5)
Other income	**8.1**	18.8	4.6	20.2
Operating profit	**49.0**	44.2	23.5	19.7
Net interest receivable (payable)	**1.4**	3.6	1.6	(0.1)
Profit before tax	**50.4**	47.8	25.1	19.6

Basis of preparation

1. The results are presented before goodwill and restructuring.
2. The 2001, 2000 and 1999 results are presented at historic exchange rates.
3. The results of businesses which were held for immediate disposal on the acquisition of Medeva PLC are excluded.
4. The 2002 and 2001 figures are extracted, without adjustment, from the audited profit and loss account, before goodwill and restructuring items presented this year. The 2000 and 1999 figures are extracted from the pro-forma note, audited by Ernst & Young and presented in the 2000 financial statements.

Differences between United Kingdom and United States generally accepted accounting principles

for the year ended 31 December 2002

Profit and loss account

Adjustments to the loss for the period under UK GAAP and the net loss under US GAAP are as follows:

	Notes	Year ended 31 Dec 2002	Year ended 31 Dec 2001*
Loss for the period under UK GAAP		**(45.8)**	(55.5)
US GAAP adjustments:			
Revenue recognition	i	**(12.7)**	(13.1)
Medeva goodwill adjustments	ii	**(3.6)**	(1.4)
Amortisation of goodwill and other intangibles	iii	**39.8**	(14.6)
Inventory adjustment	iv	**–**	(0.8)
Pension costs		**(1.9)**	0.8
Stock based compensation	v	**7.2**	2.1
Unrealised gains on derivative financial instruments	vi	**6.9**	0.4
Deferred taxation	vii	**(5.1)**	(5.2)
Net loss before cumulative effect of change in accounting policy		**(15.2)**	(87.3)
Cumulative effect of change in accounting policy due to adoption of SFAS 133	vi	**–**	1.5
Net loss as adjusted to accord with US GAAP		(15.2)	(85.8)

Shareholders' funds

Adjustments between shareholders' funds under UK GAAP and US GAAP are as follows:

	Notes	Year ended 31 Dec 2002	Year ended 31 Dec 2001
Shareholders' funds under UK GAAP		**564.4**	619.2
US GAAP adjustments:			
Revenue recognition	i	**(25.8)**	(13.1)
Goodwill and intangibles	iii	**163.2**	148.3
Pensions		**0.2**	2.1
Pensions – other comprehensive income	ix	**(14.0)**	–
Unrealised gains on derivative financial instruments	vi	**8.8**	1.9
Employee Share Ownership Plan	viii	**(0.3)**	(0.3)
Deferred taxation	vii	**–**	5.1
Shareholders' funds as adjusted to accord with US GAAP		696.5	763.2

*Restated in accordance with Form 20F filed with the US SEC for the year ended 31 December 2001.

Notes:

(i) Revenue recognition

Under UK GAAP, non-refundable licence fee revenue is recognised when earned. Refundable licence fees are deferred until such time as they are no longer refundable, otherwise the individual elements such as milestones and R&D funding are accounted for separately based on the revenue recognition criteria set out in note 1 to the accounts.

US GAAP requires in most circumstances the deferral of non-refundable upfront licence fees and other income received under a contract where there is a continuing involvement with the licensed asset through collaboration or other arrangement.

(ii) Medeva goodwill adjustments

Under US GAAP the time frame allowed to make adjustments to goodwill is one year from the date of acquisition, except for adjustments in respect of taxation when an indefinite period is available. Under UK GAAP the time frame available extends to the first full reporting period after the reporting period in which the acquisition was made. Thus a longer period to make goodwill adjustments is generally available under UK GAAP. Consequently certain adjustments were booked to goodwill arising on the Medeva acquisition during 2001 for the purpose of the UK accounts. These have flowed through the profit and loss account for US GAAP purposes during 2001 and 2002.

(iii) Amortisation of goodwill and other intangibles

Under US GAAP the merger between Celltech and Chiroscience failed to qualify as a pooling of interest and therefore additional goodwill and intangible assets were established on the US balance sheet. In addition, amortisation is no longer automatically charged under SFAS 142 'Goodwill and other intangible assets' on goodwill. Amortisation continues to be applied in the US on finite life intangibles whilst goodwill and indefinite life intangibles are tested for impairment annually.

(iv) Inventory adjustment

The 2001 adjustment relates to the Thiemann acquisition and the 2000 adjustment to the Medeva acquisition. Under UK GAAP, inventory is recognised at replacement cost. Under US GAAP, inventory is recognised at selling price less an allowance for selling costs.

(v) Stock based compensation

Under UK GAAP, no compensation expense is recorded in connection with the issue of share options to Group employees at market value. Under US GAAP, APB 25, an annual compensation expense is imputed for variable stock option plans based on the excess of the then prevailing market price over grant price.

(vi) Unrealised gains on derivative financial instruments

As described in note 1 to the accounts 'financial instruments' the Group uses forward exchange contracts to match against forecast receipts and payments in foreign currency. As the contracts are not matched to specific receivables or payables the gains or losses arising on the hedges are not recognised until such time as they are realised under UK GAAP. SFAS 133 determines that under such circumstances recognition should be made of the gains or losses that have arisen in the profit and loss account.

The Group adopted SFAS 133 during 2001 and accordingly the adjustment recognised in that year takes into account the cumulative effect of this change in accounting policy.

(vii) Deferred taxation

The Group adopted FRS 19 during 2001 resulting in prior year adjustments to goodwill and deferred taxation under UK GAAP. Under US GAAP no deferred tax liability is recognised in a purchase business combination for which amortisation is not deductible for tax purposes. Consequently the FRS 19 adjustments have been reversed.

(viii) Employee Share Ownership Plan (ESOP)

Under UK GAAP the Company's own shares held by the ESOP are recorded as fixed asset investments at cost. Under US GAAP those shares not fully vested are regarded as treasury stock and recorded at cost as a deduction from shareholders' equity.

(ix) Pensions – other comprehensive income

Under US GAAP, a minimum pension liability is recognised through other comprehensive income in certain circumstances when there is a deficit of plan assets relative to the projected benefits obligation. Under UK GAAP, there is no such requirement.

Shareholder Information

as at 31 December 2002

Analysis of share register at 31 December 2002

Shareholding range	Number of holders	Percentage of total holders	Number of shares
1 - 1,000	**18,013**	**80.73**	**6,300,501**
1,001 - 5,000	**3,217**	**14.42**	**6,399,324**
5,001 - 25,000	**541**	**2.42**	**6,053,677**
25,001 - 100,000	**272**	**1.22**	**14,508,430**
100,001 - 500,000	**179**	**0.80**	**40,214,336**
500,001 - 1,000,000	**35**	**0.16**	**24,126,836**
1,000,001 and over	**57**	**0.25**	**177,924,200**
	22,314	**100.00**	**275,527,304**

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Financial calendar
Annual General Meeting to be held at:
Merchant Taylors' Hall
30 Threadneedle Street
London
On Thursday 22 May 2003 at 11.30 am

Announcements
Half-year results:
September 2003
Preliminary announcement
of full year results:
March 2004

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Company Information

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Registered number: 2159282

Celltech's shares are listed on the London Stock Exchange under the symbol 'CCH', and, in the form of ADS's, on the New York Stock Exchange under the symbol 'CLL'. There are two ordinary shares to one ADS.