Celltech Group plc

Annual Report and Accounts 2003

CELLTECH

Corporate Statement

Celltech is a leading European biotechnology company with a long-term commitment to the research and development of innovative therapies for patients with serious diseases.Celltech is a recognised global leader in advanced antibody technologies, which together with its innovative small molecule capabilities, provide a strong platform for development of first-in-class or best-in-class treatments for immune and inflammatory disorders and cancer.

Celltech is focused on maximising value from its products by marketing its own products to specialist prescribers through its extensive US and European commercial operations and by accessing complementary capabilities through collaborations with other pharma and biotech companies.This strategy, supported by its strong revenue stream, enables Celltech to maintain a substantial investment in research and development whilst maintaining its financial strength and flexibility.

The combination of these strengths underpins Celltech's goal of becoming a global biotechnology leader, which will be furthered by the successful development and commercialisation of its key late-stage development product, CDP870, and by the rapid progression of its promising early-stage pipeline products.

Contents

Chairman's Statement

The past year has seen much change within Celltech including, most importantly, a major, planned management transition. With the appointment of Göran Ando in April 2003, Celltech gained a Chief Executive with an exceptional R&D track record and extensive business experience. In parallel, Peter Allen was appointed as Deputy Chief Executive, significantly broadening his responsibilities to include manufacturing, whilst retaining his role as Chief Financial Officer and responsibilities for IT, Business Development and Legal activities.

A series of new strategic initiatives has since been implemented, which is strengthening and enhancing both Celltech's R&D pipeline and its commercial operations, and which will support the Company's further successful growth and development.

During the year the product pipeline has been expanded, with a range of innovative new entrants into clinical development, possessing large market potentials. In addition, Celltech's lead product, CDP870, in late-stage development for rheumatoid arthritis, has entered pivotal Phase III studies in Crohn's disease. Importantly, Celltech's product development capabilities are being extensively restructured and reinforced to meet the needs of its growing pipeline.

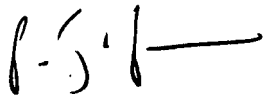
Celltech has also maintained its strong financial profile in 2003 and this continues to provide a robust platform for its major long-term R&D commitment. The commercial operations performed well, despite generic pressures and adverse currency influences, and royalty revenues increased significantly.

There have been a number of unforeseen challenges and events during the year, in particular the discontinuation of Celltech's collaboration with Pfizer and the acquisition of Oxford GlycoSciences (OGS) at the beginning of the year and its subsequent integration. Notwithstanding the resulting demands placed upon the management team, it has continued to focus successfully upon the strategic development of the Company.

In conjunction with the management transition, a series of Board changes occurred during the year, which were previewed in the last Annual Report. These included the retirement of John Jackson, after serving as Chairman for over 20 years, and of Hugh Collum and John Baker as Deputy Chairmen. In addition, Marvin Jaffe plans to retire as a Non-Executive Director at the AGM in May 2004. The Board again thanks them for their valuable support and contributions to the Company.

Philip Rogerson, who has an extensive finance background, joined the Board in March 2003, and was subsequently appointed as Senior Independent Director. He serves on the Audit and Remuneration Committees. Peter Cadbury, whose corporate finance experience included a period as Deputy Chairman of Morgan Grenfell, joined the Board in April 2003. He serves on the Remuneration Committee and chairs the Nomination Committee. Ingelise Saunders, Global Commercial Director with responsibility for the pharmaceutical business, was elected to the Board in October 2003. This reflects both the key importance of this business to Celltech and her strong personal performance.

During 2003 Celltech's business environment has continued to be demanding and has presented our employees with a series of challenges, to which they have successfully responded. Celltech's Board would like to thank them for their outstanding commitment during the year, and their contribution to the continued growth and development of the Company.



Dr Peter Fellner
Chairman

It is now close to a year since my appointment as Chief Executive and during this time my overriding observation is of a highly innovative company, full of exceptional talent. The last 12 months have seen a number of changes within Celltech, most significantly the decision by Pfizer to hand back rights to CDP870. This unexpected development has required Celltech to assimilate rapidly many activities that had been carried out by Pfizer, and has been impressively handled by the many people involved. This also represents an excellent opportunity for Celltech to maximise the value of this product for its shareholders.

Celltech's management has also made a number of difficult decisions during the last year aimed at strengthening the overall business, in particular the closure of the Seattle site, engaged in very early-stage research, and of a satellite manufacturing facility in California. These changes will allow Celltech to free up resources to reinvest in strengthening its development and late-stage research operations, and in the life cycle management of key marketed products. The management team also completed the acquisition and successful integration of Oxford GlycoSciences (OGS), which brought substantial benefits to the Company at no net cost.

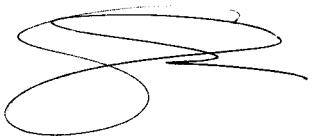
The last year has seen a number of changes in Celltech's product pipeline. Whilst there were unexpected disappointments, including the discontinuation by Merck of a PDE4 inhibitor Phase II trial, Celltech commenced Phase III studies with CDP870 in Crohn's disease, and entered four new drugs into man, an unprecedented level of activity for the Company. These innovative new programmes are a result of the increased resources available to the Company since its acquisitions of Chiroscience and Medeva, and have enabled Celltech to build a strong and sustainable early-stage pipeline under the strong leadership of Melanie Lee. This critical mass in R&D was further enhanced by the addition of OGS' oncology operations and inherited storage disorder programmes during 2003.

There has also been a significant restructuring of Celltech's commercial operations towards a specialist-focused organisation. In this regard, Celltech is somewhat unusual for a company at its stage of development in making the transition to a fully integrated biotech company with a strong commercial arm ready to launch products from its own research. Having a tried and tested organisation in place is an important factor in ensuring a successful launch of CDP870 and future pipeline products. In particular, the acquisition of Dipentum has provided an excellent entrée to the gastroenterology community and this product has performed well in the hands of Celltech's sales forces.

Celltech has also expended considerable effort in making innovative new products available to its sales forces. During 2003, Celltech's once-daily attention deficit hyperactivity disorder (ADHD) product, Equasym XL, was filed for approval in the UK and is expected to be launched in European territories during 2004, with the European organisation able to build on experience with this product in the US. Celltech also in-licensed the specialist treatment, Xyrem, from Orphan Medical, and provided responses to the FDA approvable letter for its new cough product, Codeprex, planned for launch in 2004. Existing operations continue to perform well, especially in the US, although the sales performance in Europe was impacted by enforced price cuts, in addition to the expected loss of certain co-promotion revenues.
During the last 12 months we have continued to strengthen the senior management team of Celltech, and are delighted to have recruited a number of new senior leaders, including Grahaem Brown as Director of Development, Mark Bushfield as Research Director for our Cambridge facility, David Sherwood as Director of Group Quality and, most recently, Daniel Greenleaf as President of our US Operations. All of these individuals bring substantial skills and experience with them.

Looking forward into 2004, Celltech has a number of important forthcoming milestones across all parts of its business. Most significantly, following the return of CDP870 rights from Pfizer, there has been a great deal of interest from major pharmaceutical and biotechnology companies in collaborating on CDP870. Celltech is currently in partnering discussions and aims to conclude these during the second quarter of 2004. A number of our earlier stage programmes will also generate important clinical data, and we have several important product launches in our Commercial Operations.

In this year's Annual Report we have chosen to illustrate how Celltech's employees work together towards achieving our common goals. All of our employees contribute to the success of Celltech through their exceptional efforts, and I would like to thank our staff for their efforts in supporting Celltech's goal of becoming a global biotechnology leader.



Dr Göran Ando
Chief Executive

Financial results

- Product sales and royalties: £353.3 million (+7%; +12% at constant exchange rates (CER)).
- Net pre tax profit (pre exceptional items and goodwill): £52.2 million (+4%); excluding other income, net profit grew by 17%.
- Earnings per share (pre exceptional items and goodwill): 16.0p (+3%).
- Year-end cash and liquid resources £155.0 million.
- Post tax results on a UK GAAP basis after goodwill amortisation and exceptional items: loss of £53.9 million, 19.5p per share (2002: loss of £45.8 million, 16.7p per share).

New alliances and acquisitions

- Successful acquisition and integration of Oxford GlycoSciences (OGS).
- Long-term microbial manufacturing agreement with Lonza.
- Collaboration with Biogen on CD40 ligand for autoimmune and inflammatory diseases.
- In-licensing of Xyrem, a new treatment for narcolepsy, from Orphan Medical.

R&D operations

- Pfizer agrees to return rights to CDP870.
- Initiation of Phase III studies with CDP870 in Crohn's disease.
- Entry of four products into Phase I clinical development: CDP484 and CDP323 for inflammatory diseases, CDP791 and CMC-544 for cancer.
- Entry of CDP146 into preclinical development.
- Achievement of key milestones in Amgen collaboration on osteoporosis.
- Approval of Zavesca, for Gaucher's disease, in the US and Israel.

Commercial operations

- Product sales: £259.2 million (+6% at CER), with 22% growth in key marketed brands at CER.
- Successful relaunch of Dipentum.
- Completion of sales force restructuring in the UK, France and Germany.

Product	Product description	Clinical indication
Immune and inflammatory disorders		
CDP870	Anti-TNFα antibody fragment	Rheumatoid arthritis
		Crohn's disease
CDP484	Anti-IL-1β antibody fragment	Rheumatoid arthritis
CDP323	α4 integrin antagonist	Inflammatory diseases
PDE4	PDE4 inhibitor	Respiratory diseases
CDP146	p38 MAP kinase antagonist	Inflammatory diseases
Oncology		
CDP791	Anti-GFR antibody fragment	Solid tumours
CMC-544	Anti-CD22 antibody-cytotoxic conjugate	Non-Hodgkin's lymphoma
Other		
Xyrem (Europe)	Sodium oxybate	Narcolepsy
Codeprex (US)	Codeine 12-hour extended release	Cough
Equasym XL (Europe)	Methylphenidate extended release	Attention deficit hyperactivity disorder
CDP923	Glycosphingolipid substrate inhibitor	Inherited storage disorders

	Partner	Preclinical	Phase I	Phase II	Phase III	Registration
	–					
	–					
	–					
	–					
	Merck					
	–					
	–					
	Wyeth					
	–					
	–					
	–					
	–					

Dr M G Lee Research and Development Director

DEVELOPMENT

During 2003, a number of important development milestones were achieved in the progression of Celltech's innovative product pipeline. Celltech entered four new products into Phase I clinical development during 2003, with a further product transitioned into preclinical development. In addition, Celltech achieved a critical milestone for CDP870, its most advanced pipeline product, with the initiation of a large Phase III programme in Crohn's disease in late 2003 to support a regulatory submission planned for 2005. Crohn's disease represents a large commercial opportunity for Celltech and will be the first indication for which Celltech will seek regulatory approval for CDP870.

With this unprecedented growth in Celltech's pipeline, and reflecting the potential for many of these products to treat multiple diseases, Celltech is significantly upgrading the capabilities in its development organisation to support fast, flexible and high-quality development of its portfolio of products. As part of this initiative, all development activities are now unified under a single global leadership to facilitate optimal use of skills and expertise located at its Slough, Rochester and Cambridge sites, and timely and high-quality life cycle management plans for both the marketed product portfolio and pipeline products.

In order to fully support its growing early-stage pipeline, Celltech has re-balanced its R&D resources during 2003, with the closure of its Seattle novel target discovery facility, which was involved in very early-stage research. The cost savings from this closure, along with a continuation of its strategy of partnering selected products, will assist Celltech in fully realising the value from its new product pipeline, supporting its goal of becoming a global biotechnology leader.

Autoimmune disease and inflammatory disorders

Celltech has an innovative portfolio of treatments addressing a range of autoimmune and inflammatory disorders, with a particular focus on rheumatoid arthritis (RA) and inflammatory bowel disease (IBD). The treatment of these disorders has been transformed during the last five years through the introduction of the tumour necrosis factor alpha (TNFα) inhibitor class of products, which have demonstrated a profound impact on both the signs and symptoms and progression of disease. Sales of TNFα inhibitors continue to grow significantly, increasing from $2.1 billion in 2002 to $3.3 billion in 2003, driven by both increased penetration in the RA and IBD markets, along with strong initial uptake in new indications such as psoriasis, psoriatic arthritis and ankylosing spondylitis. This market is expected to show significant further growth, providing a highly attractive commercial opportunity for Celltech's TNFα inhibitor, CDP870. Notwithstanding this market transformation, a significant number of patients are unresponsive to treatment with TNFα inhibitors, presenting a further major market

opportunity for biological agents with alternative mechanisms of action, such as Celltech's interleukin-1β (IL-1β) inhibitor, CDP484.

Whilst biological agents have had a dramatic impact on the treatment of inflammatory diseases, the requirement for parenteral administration is a drawback for many patients. Whilst protein targets such as TNFα are not tractable to small molecule approaches, alternative intervention points in their signalling pathways may provide a longer-term opportunity for small molecule approaches to treat inflammatory diseases. The research on targets in these pathways is highly competitive; Celltech's goal is to achieve high levels of efficacy whilst eliminating molecule-associated toxicities. Building on the clinical experience in this area, and drawing on its biology and pharmacology expertise, Celltech's highly focused small molecule discovery activities have yielded two promising anti-inflammatory candidates, CDP323 and CDP146.

Due to significant commonality in mechanisms of autoimmune and inflammatory disease, many of Celltech's pipeline approaches have potential utility in other inflammatory conditions, such as multiple sclerosis (MS) and psoriasis. Future plans for these pipeline products will incorporate parallel development in multiple diseases, supported by the ongoing enhancements to its development organisation.

CDP870 (certolizumab pegol)
Celltech anticipates that CDP870, its most advanced pipeline product using its proprietary PEGylated antibody fragment technology, will be a competitive entrant into the fast-growing TNFα inhibitor market, in particular through a convenient four-weekly subcutaneous dosing regimen. CDP870 is being developed as a new treatment for RA and Crohn's disease, until recently under a collaboration with Pharmacia. Following Pfizer's acquisition of Pharmacia, completed in April 2003, Pfizer conducted an internal portfolio review and, during the last quarter of 2003, notified Celltech that it wished to renegotiate the financial terms of the collaboration it had inherited from Pharmacia. In the light of the substantial commercial opportunity represented by CDP870, Celltech informed Pfizer that it was unwilling to accept a reduced return from this product, and in December 2003 Pfizer notified Celltech that it would return all rights to the product. As required by the termination provisions of its agreement, Pfizer has returned all information relating to CDP870 to Celltech, and will continue to provide certain transitional services until these can be assimilated by Celltech. Under the provisions of the agreement, Pfizer's sole residual interest in CDP870 is the retention of its 20 percent share of net profits from sales in Crohn's disease.

Following Celltech's announcement that it would regain all rights to CDP870, it received a large number of unsolicited licensing approaches from pharmaceutical and biotechnology companies and is currently in discussions with a view to securing a new collaboration partner for CDP870 during the second quarter of 2004.

In Crohn's disease, Celltech initiated a large international Phase III programme during December 2003, termed the PRECISE (**P**EGylated antibody f**R**agment **E**valuation in **C**rohn's d**I**sease: **S**afety and **E**fficacy)

Celltech's leading pipeline product, CDP870, uses its proprietary PEGylated antibody fragment technology, and entered pivotal Phase III trials in Crohn's disease during 2003 following promising Phase II trials.

Our extensive clinical and commercial development capabilities are critical to maximising value from our innovative research pipeline. We provide input from the commercial business at an early stage and throughout the life of a project to ensure that R&D programmes are optimised to deliver a compelling commercial profile.

programme. This programme, in which over 1300 patients will be treated across two studies, will assess the ability of CDP870 to induce and maintain a clinical response in patients with moderate to severe active Crohn's disease, and will incorporate patient stratification based upon baseline C-reactive protein (CRP) levels in its primary endpoints. Crohn's disease will be the first regulatory submission for CDP870, planned for 2005. Celltech intends to market CDP870 in Crohn's disease using its gastroenterology sales force in the US and specialist sales forces in Europe.

In RA, Pharmacia initiated two Phase III trials, both designed to assess the impact of CDP870 on signs and symptoms of disease, using the American College of Rheumatology scoring system, over a six-month period. The first of these studies, in which CDP870 is being assessed in combination with methotrexate (MTX) in patients with an inadequate response to MTX, will conclude in late March 2004. The second of these studies, in which CDP870 is being assessed as monotherapy, is due to conclude early in the second half of 2004. The majority of patients from these two studies have opted to continue treatment with CDP870 in a long-term safety open-label extension study.

A further trial required for registration, designed to assess the impact of CDP870 on disease progression over a 12-month period using x-ray measures of joint erosion, had been due to start during the second half of 2003. Following the termination of the collaboration with Pfizer, this third trial has been delayed and is now scheduled to commence in the second half of 2004, facilitating a 2006 regulatory filing in this indication, following the anticipated approval in Crohn's disease. Celltech is currently finalising plans for this study, which it is anticipated will be conducted by a new collaboration partner.

The reversion of CDP870 rights to Celltech removes the limitations within the Pharmacia agreement and provides an opportunity to fully exploit new indications, such as psoriasis and psoriatic arthritis. Celltech is currently assessing the optimal development route and plans to initiate Phase II studies in new indications during the next 12 months. Celltech has also initiated various life cycle management initiatives, in particular improvements in the delivery system for CDP870.

CDP484

The biology of inflammatory disease is complex and may be driven by different mediators in different patients. It is believed that two of the key mediators in many inflammatory diseases are TNFα, which Celltech is addressing through the development of CDP870, and IL-1β. Indeed, the lack of response of certain patients to treatment with TNFα inhibitors may indicate a different driver for their disease. In preclinical models of disease, inhibitors of IL-1β have demonstrated potent anti-inflammatory effects, along with greater impact on the slowing of joint erosion than TNFα inhibitors.

CDP484, a PEGylated fragment of a humanised antibody targeting IL-1β, was entered into a Phase I/II study in RA patients during 2003. This study is designed to assess the safety of ascending doses of CDP484, and will also provide information on the impact of the treatment on signs and symptoms of disease, using the standard American

Development activities have been unified under a single global leadership to facilitate optimal use of skills and expertise located at Slough, Cambridge and Rochester sites.

College of Rheumatology scoring system. This study is expected to conclude in late 2004.

CDP323

A key component of the inflammatory cascade in many inflammatory conditions is the recruitment of leukocytes to areas of inflammation, such as the synovial lining in RA and the gut in IBD. This trafficking is facilitated by the adhesion of integrins expressed on the surface of leukocytes to selectins expressed on the vascular lining. Consequently, blocking this interaction may represent an attractive point of intervention in the inflammatory cascade.

CDP323 is a small molecule inhibitor of α4 integrins that are over-expressed in patients suffering from RA and IBD, and has demonstrated potent anti-inflammatory activity in preclinical models of disease.

Celltech is currently completing Phase I studies in healthy volunteers designed to assess the safety and bioavailability of CDP323. This study also incorporates biochemical measurements to provide evidence of pharmacological activity. The first Phase II study with CDP323, in RA patients, is planned to start during the second half of 2004. A competitor antibody approach has demonstrated encouraging efficacy in MS, and Celltech is currently evaluating the optimum development strategy for further indications.

CDP146

CDP146 is an orally available small molecule inhibitor of p38 mitogen activated protein kinase (p38 MAPK), a key component of the biological cascade that leads to production of pro-inflammatory mediators such as TNFα, IL-1β and COX-2. It is believed that inhibitors of p38 MAPK will have potent anti-inflammatory effects in a number of different diseases. Consequently this is an area of high interest in the pharmaceutical industry. A key issue for many programmes has been the generation of compounds that are sufficiently selective to avoid inhibition of the many other kinases in the human body, and any consequent adverse effects. Through its focused small molecule research efforts, Celltech has generated a series of compounds with both high potency and high selectivity for p38 MAPK. The lead compound, CDP146, was entered into preclinical development during 2003 and is planned to enter Phase I human safety trials during the second half of 2004, with the first Phase II study, in RA patients, scheduled to start during 2005.

Oncology

Oncology remains an area of significant unmet medical need, with current treatments often effective only in subgroups of patients, and often having dose-limiting toxicities. Current research recognises the need for more effective treatments with better therapeutic windows, and the need for combinations of treatments to provide the best survival outcomes. The unique specificity of antibodies for a particular disease target has heightened interest in this area of research. Likewise, an increasing understanding of tumour-signalling pathways that control growth or death of tumours has opened a new avenue of research for small molecule approaches. Celltech is currently building up its oncology portfolio, with a particular focus on targeted cell ablation using antibodies as targeting agents, and on small molecule programmes to inhibit tumour growth.

CMC-544
Through its collaboration with Wyeth, encompassing antibodies to selectively deliver a potent cytotoxic drug, calicheamicin, to tumours, Celltech is developing CMC-544. This collaboration has already yielded the FDA approved drug, Mylotarg, a treatment for acute myeloid leukaemia. CMC-544 utilises the same technology platform as Mylotarg, and comprises a humanised monoclonal antibody targeting CD22, a protein expressed on the surface of malignant B-cells, linked to calicheamicin.

Wyeth is currently undertaking a Phase I study in patients with Non-Hodgkin's lymphoma. Under the terms of Celltech's collaboration, Wyeth funds the majority of clinical trial costs for CMC-544, with Celltech receiving a royalty on future sales of the product if successfully commercialised.

CDP791
Antibodies blocking the activity of certain growth factors have demonstrated utility in the treatment of solid tumours alongside existing chemotherapeutic regimens, through the process of angiogenesis inhibition. CDP791 is a high affinity PEGylated fragment of a humanised antibody that targets a growth factor receptor involved in tumour angiogenesis. During 2003, CDP791 entered a Phase I study in patients with a range of advanced solid tumours who have failed to respond to standard treatments. This study is designed to confirm the safety of ascending doses of CDP791 and to provide evidence of pharmacological activity through the use of MRI to determine the effect on blood flow into tumours. Results from this study are expected during the second half of 2004.

CDP860
Following successful completion of a small Phase II proof-of-concept study to determine whether CDP860 was able to increase the permeability of tumours in patients with colorectal and ovarian cancer, Celltech indicated its intention to seek partners for this programme, due to the complexity of development alongside existing chemotherapeutic regimens. Following initial discussions with a number of potential collaborators, the relatively limited amount of information generated around this mechanistic approach has not elicited any firm interest, consequently this programme has been terminated. There are no costs associated with this termination.

Inherited storage disorder (ISD) products
Through its acquisition of Oxford GlycoSciences (OGS), Celltech obtained two oral substrate reduction therapies (SRT) for the treatment of certain ISDs.

The most advanced of these, Zavesca (miglustat), was approved during 2003 in the US and Israel for the treatment of mild to moderate type 1 Gaucher disease for patients where enzyme replacement therapy is not a therapeutic option, following approval in Europe during 2002. Zavesca has been launched in the US and Europe by Celltech's marketing partner, Actelion, and in Israel by Teva.

The second-generation product, CDP923, is currently undergoing a Phase I multiple dose study in healthy volunteers, designed to confirm preclinical findings that this compound lacks the gastrointestinal side effects seen with Zavesca. Celltech is currently evaluating the optimum development route for this compound for entry into pivotal Phase II studies.

RESEARCH
The productivity of Celltech's research organisation is evidenced by the entry of four novel compounds into clinical

development during 2003. This high level of innovation and productivity is a result of the increased resources available to the research organisation since 2000. Celltech's research organisation continues to develop its state-of-the-art technology platforms, and to focus on specific drug classes and therapeutic areas where the Company is able to build expertise rapidly. Celltech's research capability has been further enhanced by the acquisition of OGS during 2003, which has substantially expanded the Company's oncology efforts.

The combined benefits of having both antibody and small molecule expertise allow Celltech to select the optimal therapeutic approach for each disease target, for example through novel drug conjugation technologies utilising a combination of chemistry and biology skills. Celltech is building on its existing expertise in RA and IBD to expand into new areas of high unmet medical need, including MS, lupus and psoriasis. In this regard, Celltech's research organisation works closely with its commercial group to ensure the target profile of all products selected to enter development is commercially attractive. Celltech is strengthening the interface between its research and development groups to ensure that products are fully optimised at an early stage, thereby minimising pipeline attrition. Celltech continues to invest in its technology platforms, ensuring that it is equipped to compete with the best in the industry, evidenced by collaborations with global biotechnology leaders such as Amgen and Biogen Idec who have been attracted to Celltech's unique strengths.

Disease area focus

Celltech typically pursues multiple therapeutic approaches in its chosen disease areas. This balanced portfolio approach is designed to both optimise the chances of successfully bringing product to market in each disease area, and to address different medical needs or patient groups. In autoimmune and inflammatory diseases, Celltech continues to focus on new approaches for the treatment of RA and IBD, in particular seeking more selective immunosuppression and better delivery characteristics than current treatments. Celltech is also expanding its expertise into new disease areas, in particular through its growing research pipeline in MS, encompassing both small molecule and antibody approaches, and into other serious inflammatory conditions such as lupus and psoriasis.

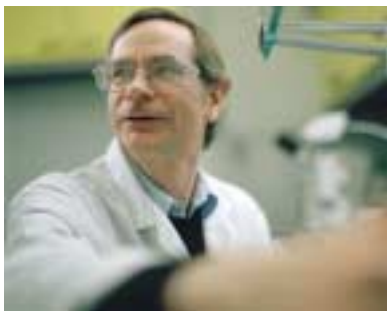
Celltech continues to build its oncology resources as an additional strong area of focus, and is developing a range of approaches, primarily addressing the significant unmet need in the treatment of solid tumours. Celltech's emerging oncology pipeline includes approaches to intervene in tumour signalling pathways, using both small molecule and antibody technologies to slow or stop tumour growth, and targeted cell ablation approaches, where antibodies are used to direct toxins selectively to tumours, or in certain cases exhibit a direct anti-tumour effect. Both elements have been strengthened during 2003 as a result of the OGS acquisition.

Celltech's potential approaches for each disease area are shown in the table below.

Antibody research

Celltech's unique range of antibody technologies enables it to address challenging disease targets in a number of different ways. In its OX40 receptor (OX40R) programme, Celltech has demonstrated in preclinical models the ability of an antibody-targeted toxin approach, using a toxin and linker platform licensed from Seattle Genetics, to selectively deplete memory T cells responsible for perpetuation of

	Antibody-based approaches	Small molecule approaches
Inflammatory and autoimmune diseases		
Rheumatoid arthritis	CDP870, CDP484, other anti-cytokine	CDP323, CDP146
Inflammatory bowel disease	CDP870, other anti-cytokine	CDP323
Psoriasis	CDP870, CDP484	Chemokine inhibitors
Multiple sclerosis	OX40R, CD40L, anti-cytokine	CDP323
Lupus	OX40R, CD40L, BCR	
Oncology		
Targeted cell ablation	CMC-544 (Wyeth), cell surface markers	
Tumour signalling pathways		Kinase Inhibitors
Other approaches	CSF-1, CDP791	KDR kinase (J&J)



autoimmune diseases. This highly novel and innovative approach utilises the unique properties of Celltech's antibody fragment platform to modify the characteristics of traditional antibody therapies, and is likely to have application in relapsing-remitting diseases, such as MS. This programme represents a new avenue of research for antibody-targeted toxin approaches, which have previously been utilised successfully in oncology applications.

Celltech recently entered into a collaboration with Biogen Idec on CD40 ligand (CD40L), a key regulator of antibody-mediated immune responses. Celltech will apply its antibody technology platforms to generate antibody-based therapeutics with novel properties to address this challenging target. Products arising from this collaboration are likely to have utility in a wide range of autoimmune conditions, including lupus and MS.

In its collaboration with Amgen Inc, which aims to identify novel treatments for osteoporosis through inhibition of the protein sclerostin, Celltech's Selected Lymphocyte Antibody Method (SLAM) technology has enabled it to generate high-affinity antibodies to this highly conserved target. A number of key research milestones were met in this programme during 2003.

Celltech's acquisition of OGS has brought a number of validated antibody-based oncology research programmes, which Celltech expects to accelerate through the application of its SLAM technology. The majority of these programmes are based upon cell surface markers of specific tumour types, and therefore fit well with Celltech's advanced drug conjugation technologies.

Celltech continues to invest in the development of its antibody technology platforms, in particular through the combination of its chemistry and biology skills to develop advanced conjugation technologies to further improve the manufacturing profile of these agents, and the use of antibodies as targeted delivery agents.

Small molecule research

Celltech has a highly focused small molecule research effort, which along with its access to state-of-the-art technologies, enables it to compete fully in its chosen areas with the large-scale operations employed by pharmaceutical companies. Celltech's efforts focus on discovering best-in-class drugs against well-characterised targets, and building in stringent selection criteria to establish efficacy and to reduce the likelihood of unexpected toxicities or metabolic issues.

In the area of autoimmune diseases and inflammatory disorders, Celltech's small molecule research is highly complementary to its antibody pipeline, through research into alternative steps in disease pathways and different mechanisms.

An example of this approach is the p38 MAPK programme, an upstream target in the pathway that activates cytokine synthesis with potential application in a broad range of diseases. Through a combination of focus in kinase chemistry, an extensive in-house compound library and advanced technologies, including structure-based drug design and x-ray crystallography, Celltech has identified a series of potent and highly selective inhibitors.

During 2003, Celltech entered its initial candidate, CDP146, into preclinical development, and is now assessing a series of backup and follow-up compounds, with the intention of entering a further candidate into development during 2004. Celltech also routinely assesses whether its large molecule disease targets are tractable to small molecule approaches.

Celltech's research organisation continues to develop its state-of-the art technology platforms, and to focus on specific drug classes and therapeutic areas to build expertise rapidly.

In oncology, Celltech has rapidly built expertise by focusing on a number of different targets along a limited number of disease pathways. Drugs acting on these targets will typically have a profound effect on tumour growth or death, either as single agents or to enhance responses when used in combination with existing therapies, and these programmes frequently have synergies with Celltech's anti-inflammatory disease targets. As with the antibody pipeline, Celltech's small molecule oncology research efforts have been substantially strengthened as a result of its acquisition of OGS and the addition of a number of highly skilled scientists.

Disease target

Celltech has historically gained access to antibody targets through multiple sources, including literature targets, academic collaborations, corporate collaborations and its in-house research. Celltech believes that its unique combination of antibody technologies, along with its ability to support development and commercialisation of products arising from target collaborations, makes it an attractive collaboration partner for target-rich companies, evidenced by its recent collaboration with Biogen Idec.

A further example of Celltech's target acquisition strategy was the purchase of OGS during 2003. Through this acquisition, Celltech gained access to six high-quality oncology research programmes, supported by a skilled team of 40 research staff. In addition, Celltech is continuing to exploit OGS' extensive proteomics database, which in combination with Celltech's bioinformatics expertise is expected to yield further disease targets. Reflecting Celltech's success in accessing validated disease targets on commercially attractive terms, and its desire to redirect investment from very early-stage research to its growing development pipeline, Celltech announced the closure of its novel target discovery facility in Seattle in late 2003.

In its small molecule pipeline, Celltech continues to pursue literature targets with a high degree of validation to generate best-in-class drugs. Celltech's biology and pharmacology expertise, along with its access to focused in-house chemical libraries and ultra-high-throughput screening technologies, provide novel insights into these disease targets that enable it to rapidly generate highly competitive small molecule candidates.

The OGS acquisition has allowed us to integrate a number of skilled scientists into our existing oncology organisation. Several of the OGS antibody-based oncology programmes have already benefited from using our SLAM technology, speeding up the discovery process.

Mrs I Saunders
Global Commercial Director

Sales of major products	2003 £m	2002* £m	Change %
Key promoted brands:			
Tussionex (US)	**68.1**	65.6	+4
Metadate CD (US)	**20.2**	16.6	+22
Delsym (US)	**18.0**	13.1	+37
Dipentum (US/Europe)	**17.1**	4.4	+289
Perenterol (Germany)	**7.8**	7.8	0
Coracten (UK)	**7.1**	6.3	+13
Total key promoted brands	**138.3**	113.8	+22
Other major products:			
Zaroxolyn (US)	**25.3**	26.2	-3
Generic methylphenidate (US/Europe)	**9.8**	11.7	-16
Ionamin (US)	**5.0**	5.1	-2
Semprex-D (US)	**4.0**	2.4	+67
Pediapred (US)	**1.4**	3.6	-61
Other products (US/Europe)	**75.4**	81.4	-7
Total other products	**120.9**	130.4	-7
Total product sales	**259.2**	244.2	+6
Effect of exchange differences	-	8.7	
As reported	**259.2**	252.9	+2

*At constant 2003 exchange rates.

COMMERCIAL OPERATIONS

Celltech has made significant progress during the last year in reinforcing and focusing its commercial operations to maximise the returns from both its existing and future marketed products. In parallel, Celltech's commercial organisation continues to work closely with key international opinion leaders and its R&D organisation to shape the development of CDP870 and its other development programmes.

In its US operations, Celltech has focused the efforts of its primary care operations behind its key promoted brands, in particular through targeted promotion and selected life cycle management initiatives designed to grow sales of these products. Celltech's US specialist sales force, established during 2002, continues to forge important links with gastroenterologists through the promotion of Dipentum, which has performed well during 2003. Celltech's US commercial operations were further strengthened by the recent appointment of Daniel Greenleaf as President.

During 2003 Celltech has transformed its European commercial operations to focus on specialist prescribers through a substantial restructuring. This restructuring has been designed to upgrade the organisation's skills to ensure that it is fully prepared for the launch of CDP870, initially in Crohn's disease, along with further important near-term European product launches such as Equasym XL and Xyrem. These changes, along with continued improvements to the supporting infrastructure, provide Celltech with the key components of a world-class

Celltech aims to commercialise its own pipeline products, targeting specialist-prescribing audiences accessed through highly skilled sales forces.

specialist-focused organisation in the US and Europe.

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

The commercial operations performed strongly, with product sales increasing by 6 percent to £259.2 million (2002: £244.2 million). Sales of Celltech's key promoted brands increased by 22 percent to £138.3 million (2002: £113.8 million), reflecting the focusing of sales and marketing resources behind these products, and the impact of certain life cycle management activities, detailed below. Sales of other products declined by 7 percent to £120.9 million (2002: £130.4 million), reflecting the cessation of certain co-promotion agreements, which reduced revenues by approximately £5.5 million versus 2002. European sales were also affected by the introduction of pharmacy rebates in Germany during 2003. The performance of key individual products is detailed below.

Cough/cold franchise
Celltech's US cough/cold franchise remains an important source of revenues and continued to perform well during 2003. Tussionex, Celltech's 12-hour hydrocodone-based anti-tussive, increased its market share by 11 percent and total prescriptions by 8 percent, with sales increasing by 4 percent to £68.1 million (2002: £65.6 million).

Delsym, Celltech's 12-hour OTC anti-tussive, responded well to life cycle management initiatives and proactive brand and channel management, with sales increasing by 37 percent to £18.0 million (2002: £13.1 million).

Celltech's cough/cold franchise is expected to be further strengthened by the implementation of further life cycle management initiatives, including the anticipated launch of Codeprex, the first 12-hour codeine-based anti-tussive, during the second half of 2004 in time for the 2004/5 cough/cold season.

Dipentum
Dipentum, a treatment for ulcerative colitis acquired from Pharmacia during 2002, performed well in all territories during its first full year under Celltech's ownership, with sales increasing to £17.1 million (2002: £4.4 million from September 2002). Celltech is currently undertaking life cycle management initiatives with Dipentum, in addition to establishing its Rochester site as a manufacturing source for Dipentum, which is expected to enhance the profitability of this product.

Metadate CD / Equasym XL
Metadate CD, Celltech's once-daily methylphenidate product sold in the US, performed strongly during 2003. In particular, the launch of 10mg and 30mg dosage strengths for this product during 2003 led to performance above expectations, with sales of Metadate CD increasing by 22 percent to £20.2 million (2002: £16.6 million).

In Europe, Celltech expects to launch Equasym XL, the European trade name for its once-daily methylphenidate product, in its first territories during 2004.

Other products
Sales of Zaroxolyn (metolazone), a diuretic sold in the US for the treatment of oedema associated with congestive heart failure, declined to £25.3 million (2002: £26.2 million). Following the expiry of patent protection for Zaroxolyn during 2002, Celltech pre-emptively launched its own generic metolazone during the second half of 2003 and, during December 2003, the US FDA approved three generic competitor metolazone products. Due to the introduction of

We have successfully streamlined the French organisation and now have a skilled team concentrating on our specialist products. The team is already building strong relationships with the gastroenterology community, focusing on brands such as Dipentum in preparation for the launch of CDP870 in Crohn's disease.

generic competition to Zaroxolyn, Celltech no longer promotes this product and anticipates a rapid decline in sales during 2004.

Perenterol, an antidiarrhoeal sold in Germany, maintained sales at £7.8 million (2002: £7.8 million) despite the effect of pharmacy rebates of 6 percent introduced during 2003.

Coracten, a branded generic version of nifedipine sold in the UK, continued to respond to Celltech's strong promotional effort, with sales increasing by 13 percent to £7.1 million (2002: £6.3 million).

Celltech: an emerging force in specialist marketing

During the last year, Celltech has continued to streamline its commercial operations, with the goals of maximising the sales and profitability of the existing marketed portfolio, and preparing for the successful launch of its own pipeline products, in particular CDP870 in Crohn's disease. An overview of the key initiatives is provided below.

Meeting the CDP870 challenge: enhancing sales force capabilities

Celltech aims to commercialise its own pipeline products where these are marketed to specialist-prescribing audiences that can be effectively accessed through small, highly skilled, sales forces. During 2003, Celltech has accelerated the transition of its European organisation away from its previous primary care focus towards a world-class specialist-focused organisation. This transition provides substantial benefits to Celltech by having all key resources and capabilities in one place, and providing the ability to establish links with key prescribing physicians and opinion leaders, well ahead of the launch of CDP870. Celltech's acquisition of rights to Dipentum during 2002 is an important component of this strategy, enabling Celltech to build strong relationships with the gastroenterology community ahead of the launch of CDP870 in Crohn's disease.

A restructuring of the UK, French and German sales forces was completed during 2003, and is due to be completed in the first half of 2004 in the Spanish operations. This complements the specialist gastrointestinal sales force in the US and the specialist Nordic operations, established during 2002. As part of the restructuring process, Celltech recruited 47 highly skilled new sales representatives, in addition to strengthening senior management in certain countries. The result of this restructuring was a net reduction of 153 representatives to 140, with associated exceptional charges in 2003 of £9.0 million. The new specialist sales forces have substantial expertise gained in large pharmaceutical or biotechnology companies.

Celltech intends to use its existing European sites as hubs to expand into further territories in order to provide comprehensive pan-European specialist coverage. During 2004, Celltech expects to establish satellite sales forces in the Netherlands and Portugal, with further expansion planned during 2005.
The establishment of specialist sales forces has allowed Celltech to focus resources behind key specialist brands such as Dipentum and Equasym XL, which is planned to be launched in Europe during 2004, and further specialist product opportunities. To add further critical mass to the European organisation, Celltech in-licensed the European rights to Xyrem, a treatment for narcolepsy, from Orphan Medical during 2003. Under the terms of the licensing agreement, Celltech made an upfront payment to Orphan Medical of $2.5 million and will make further milestone payments of up to $13 million dependent upon achieving certain development and sales-based milestones, in addition to paying a royalty on sales. The application for approval to market this product in Europe has been filed in the first quarter of 2004 with an anticipated launch for the product during 2005.

To ensure Celltech's sales forces are able to perform significantly above industry effectiveness and efficiency, Celltech has implemented a comprehensive sales force effectiveness programme, which will employ continuous benchmarking and training along with state-of-the-art support systems, including customer relationship management (CRM) and sales force automation activities.
In parallel with the transitioning of sales force capabilities, Celltech has continued

The establishment of specialist sales forces has allowed Celltech to focus resources behind specialist brands such as Equaysm XL, which is planned to be launched in Europe during 2004.

to strengthen its commercial development and local marketing functions. In the near-term these groups are preparing for the launch of CDP870 in Crohn's disease, including opinion leader development, market research and scientific congress activities. These teams also work closely with the R&D organisations to assist in the development of an attractive commercial profile for all pipeline products, fully supported by relevant clinical and health economic data generated in the development process. The individuals in these groups have extensive experience gained in large pharmaceutical companies through the successful international launches of major products.

Maximising product revenues: product life cycle management

In order to maximise the value of its existing product portfolio, Celltech is undertaking a number of life cycle management initiatives designed to grow its key brands.

In the cough/cold franchise, the introduction of a new bottle size and a paediatric product for Delsym has proved extremely successful in growing the brand. The cough/cold franchise is expected to be further enhanced during 2004 by the introduction of Codeprex, which will be the only 12-hour codeine-based prescription product, complementing the existing Tussionex franchise. Celltech received an approvable letter from the FDA for Codeprex during 2002 and has now provided responses to the FDA. It is anticipated that Codeprex will be launched in time for the 2004/5 cough/cold season.

In the ADHD franchise, Celltech has introduced 10mg and 30mg dose strengths for Metadate CD to complement the existing 20mg strength, and has also changed the product presentation. These measures have assisted in growing revenues from this product in an extremely competitive market.

Further life cycle management initiatives are underway for Tussionex and Dipentum and are anticipated to stimulate further growth in these products in the future. Reflecting Celltech's commitment to effective life cycle management, all development activities for both marketed and pipeline products are now managed under a single global structure.

Supply chain management

During 2003, Celltech has further streamlined its supply chain, resulting in the closure of its satellite manufacturing facility in Santa Ana. Celltech's facility at Rochester is being established as a major manufacturing hub for the Group's non-biological products. During 2003, Rochester has been established as a manufacturing source for Metadate CD / Equasym XL, and work is currently ongoing to establish Rochester as a source for Dipentum.

Celltech's biological products are currently produced using a network of third party manufacturers as part of its global supply chain. In order to meet the needs of the future pipeline, Rochester is now able to perform quality testing of Celltech's biological products prior to their release and will increasingly become involved in the packaging and distribution of these products. To support future needs, a new global supply chain system is being implemented, enabling Celltech to handle the sophisticated distribution arrangements for both current and future products.

The US commercial business is maximising sales and profitability of key promoted brands through targeted promotion and life cycle management programmes for Tussionex, Delsym and Dipentum. It is also playing an important role in the global sales force effectiveness programme, aiming to ensure Celltech's sales forces perform significantly above industry effectiveness.

P V Allen Chief Financial Officer and Deputy Chief Executive

The difficult market conditions experienced in the biotechnology sector during the last few years have highlighted the importance of maintaining a sustainable business model in order to maximise value from innovative new discoveries. Celltech's progress towards achieving its corporate goals continues to be underpinned by its strong, self-funding financial profile. The key near-term focus is the successful development and commercialisation of CDP870, supported by substantial investment in a robust and innovative development programme, as well as the appropriate commercial infrastructure that will enable it to compete effectively with established players. Following Pfizer's decision to return CDP870 rights, Celltech's financial strength enables it to optimise the terms for a new collaboration without needing to sacrifice shareholder value to meet short-term financial requirements.

Celltech's financial strength also enables it to invest fully in the rapid progression of its early-stage pipeline, in addition to facilitating small, focused acquisitions such as disease targets and marketed or near-market products. Celltech's Commercial Operations are a key component of its strategy, through their strong cash generation, and they have been further streamlined during the year through a series of restructuring initiatives. In addition, a number of life cycle management measures have been initiated to protect and grow the Company's portfolio of marketed products. Notwithstanding the substantial restructuring of Celltech's business during 2003, including the integration of OGS, all areas of Celltech's business have continued to perform well, further strengthening the Company's financial profile.

Except where stated, the discussion of financial results below uses constant 2003 exchange rate comparisons for all product sales and royalty figures, and historic exchange rate comparisons for all other figures. On the statutory basis, taking account of goodwill amortisation and the exceptional charge for the year, the net loss after tax for the year was £53.9 million and the loss per share was 19.5p. Discussion of overall financial performance for the year is based upon the operational profit and loss account, which excludes goodwill amortisation and exceptional items, and is derived from the statutory profit and loss account. Goodwill arises from accounting treatment of company acquisitions, representing the difference between the underlying fair value of the business and its acquisition price, and for acquisitions since January 2000 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 exceptional items.

Financial commentary on 2003 and outlook for 2004

All areas of Celltech's business have performed well during 2003, with total product sales and royalties increasing by 12 percent to £353.3 million (2002: £314.7 million). In particular, strong growth was seen in Celltech's antibody engineering revenues, which increased by 28 percent to £62.7 million, notwithstanding the impact of Celltech's 2001 settlement agreement with Genentech, which reduced the effective rate for royalties received during the last quarter of 2003. Under this agreement, the royalties payable by Genentech reduce by one-twelfth per quarter until the date of the original patent expiry in March 2006, the impact of which will be to reduce the effective royalty rate for antibody engineering revenues by approximately 29 percent in 2004 and 62 percent in 2005 compared to what Celltech would originally have received, although Celltech expects this to be partly mitigated by the anticipated growth in sales of the underlying products. Sales of Celltech's marketed products increased by 6 percent to £259.2 million, with individual product performances detailed in the review of commercial operations.

The strong performance of marketed products and royalties enabled Celltech to increase its R&D expenditure to £106.1 million (2002: £95.7 million), reflecting the significant progress with both CDP870 and Celltech's earlier stage pipeline products, along with the addition of certain aspects of OGS' R&D

Operational profit and loss account for Celltech Group for the year ended 31 December 2003	2003 £m	2002 £m	Change %
Sales	**353.3**	329.6	+7
Cost of sales	**(101.5)**	(94.7)	+7
Gross profit	**251.8**	234.9	+7
Research and Development	**(106.1)**	(95.7)	+11
Selling, marketing and distribution	**(67.4)**	(71.5)	-6
Corporate and general administration (pre exceptional items and goodwill)	**(31.3)**	(26.8)	+17
Total expenses	**(204.8)**	(194.0)	+6
Operating profit before other income (pre exceptional items and goodwill)	**47.0**	40.9	+15
Other income	**2.5**	8.1	-69
Operating profit pre exceptional items and goodwill	**49.5**	49.0	+1
Interest	**2.7**	1.4	+93
Net profit pre exceptional items and goodwill	**52.2**	50.4	+4
Tax	**(7.8)**	(7.6)	+3
Net profit after tax pre exceptional items and goodwill	**44.4**	42.8	+4
Earnings per share pre exceptional items and goodwill	**16.0p**	15.5p	+3
Operating loss (statutory basis)	**(63.6)**	(44.7)	+42
Loss on ordinary activities after taxation (statutory basis)	**(53.9)**	(45.8)	+18
Earnings per share (statutory basis)	**(19.5p)**	(16.7p)	+17

activities into Celltech's operations since April 2003. Selling, marketing and distribution costs reduced by 6 percent to £67.4 million (2002: £71.5 million), primarily arising from the impact of sales force restructuring initiatives and exchange rate movements. Corporate and general administration expenses were affected by the continued increase in insurance charges, detailed below, and the changes to the Board during the year, increasing by 17 percent to £31.3 million (2002: £26.8 million). Operating profit before other income rose 15 percent to £47.0 million (2002: £40.9 million).

Other income arising from product collaborations was markedly lower than 2002, which included a $10 million (£6.4 million) payment from Pharmacia relating to the initiation of Phase III studies with CDP870. Other income is dependent upon progress with new and existing collaborations and can fluctuate significantly year on year. Other income is expected to be substantially higher during 2004 following the anticipated outlicensing of CDP870.

As expected, there was a small increase in operating profit pre exceptional items and goodwill to £49.5 million (2002: £49.0 million). Earnings per share pre exceptional items and goodwill increased by 3 percent to 16.0p (2002: 15.5p). The basic earnings per share, which includes the impact of exceptional items and goodwill, was a loss of 19.5p (2002: loss of 16.7p). Year-end cash and liquid resources increased during 2003 to £155.0 million (2002: £105.1 million).

Celltech anticipates a flat earnings profile, excluding the impact of the weakening of the US dollar noted below, ahead of the planned launch of CDP870 in Crohn's disease during 2006. This reflects the anticipated growth in sales of its marketed products and other income from new product collaborations, offset by the tapering of antibody engineering revenues described above, and its desire to maintain a competitive level of investment in R&D.

Goodwill amortisation for the year, which arises from the accounting treatment of company acquisitions from 2000, amounted to £94.2 million (2002: £93.7 million). Exceptional charges, detailed further below, were £8.8 million during 2003 (2002: nil).

2003: a year of change

During 2003, Celltech has implemented a number of changes, designed to further strengthen its business and to release resources to invest in its early-stage development pipeline and research activities, along with life cycle management measures for certain of its marketed products. These changes have impacted on most areas of Celltech's business.

A key focus for the commercial organisation during 2003 has been the transition of the European commercial operations from their previous primary care focus to specialist-focused organisations. This has lead to significant restructuring in all of Celltech's major European sites, as detailed in the Review of commercial operations. These extensive changes have resulted in an exceptional charge after taxation of £9 million. The annualised cost savings arising from the reduction in sales forces, partly mitigated by higher costs associated with the new specialist-focused representatives and the cessation of co-promotion agreements on certain products in the UK and France, amount to £2 million.

A further focus for the commercial organisation is the streamlining of manufacturing operations, in particular through increasing the utilisation of the Rochester US facility. This led to the closure of a satellite manufacturing facility in Santa Ana during 2003, giving rise to an exceptional charge of £4.5 million, reflecting redundancy costs and short-term lease commitments, in addition to writing down the book value of the facility.

Following a review of Celltech's long-term R&D needs, the decision was made to close the Seattle novel target discovery facility, engaged in very early-stage research, in the second half of 2003.

Turnover	**2003 £m**	2002* £m	Change %
Total product sales	**259.2**	244.2	+6
Antibody engineering	**62.7**	48.8	+28
Pertactin	**8.6**	10.1	-15
Asacol	**6.1**	7.0	-13
Mylotarg	**3.1**	2.5	+24
Other	**3.1**	2.1	+48
	83.6	70.5	+19
Exchange gains on forward contracts	**10.5**	-	
Total royalties	**94.1**	70.5	+33
Total sales	**353.3**	314.7	+12
Effect of exchange differences	-	14.9	
As reported	**353.3**	329.6	+7

* At constant 2003 exchange rates.

Certain research activities previously carried out in Seattle will be transferred to Celltech's Slough and Rochester facilities, with the bulk of the annual savings of approximately £11 million to be reinvested in Celltech's early-stage development pipeline and late-stage research activities. This closure resulted in an exceptional charge of £5.6 million, reflecting redundancy costs and short-term lease commitments, in addition to writing down the book value of the facility.

Following its acquisition of OGS in the first half of 2003 for £106.1 million, including transaction costs, Celltech has undertaken a substantial restructuring of this business, including closure of certain activities and facilities, with associated redundancies. At the time of its acquisition by Celltech, OGS had net cash and liquid resources of £126.6 million. The costs of restructuring and cash outflows relating to discontinued activities during 2003 amounted to £20.2 million, which, along with the anticipated cash inflows and outflows during 2004, is expected to meet Celltech's goal of a broadly cash-neutral acquisition of valuable assets, including six high-quality oncology programmes and the inherited storage disorder programmes, Zavesca and CDP923. Celltech has recorded exceptional restructuring costs, mainly relating to staff redundancies and costs of discontinued projects, of £4.5 million in 2003. OGS' continuing operations have been recorded as part of Celltech's operating results from 14 April 2003, the effective date of control.

At the time of its acquisition of OGS, Celltech indicated that it would seek a buyer for the proteomics contract service business. At acquisition this business was recorded as a business held for resale at a value of £8.0 million. Despite substantial initial interest, no offers were forthcoming and Celltech announced the closure of this business in November 2003. The closure was completed in January 2004. The write-down in realisable value of the proteomics business has been recorded as an adjustment to the fair value of assets acquired, detailed in the notes to the accounts.

As highlighted at the half year, Celltech wrote off stocks of CDP571 amounting to £7.5 million following the decision during the year to cease any further development of this product.

In light of the current environment for biotechnology IPOs, Celltech has written down the value of its investment in NeoGenesis. Celltech's total investment in NeoGenesis amounted to £11.3 million, including £4.3 million acquired through its purchase of OGS, which was written down to nil as part of the fair value adjustments. Celltech's initial investment has also been written down to nil, resulting in a non-cash exceptional charge of £7.0 million, reflecting the estimated value of Celltech's shareholding in NeoGenesis in the event of a low price trade sale. The access to NeoGenesis' technology remains an important component of Celltech's small molecule research strategy and will continue at least until the expiry of the current agreement during 2005.

Following resolution of most of the outstanding issues with tax authorities in various jurisdictions, relating to the tax affairs of Celltech through 2000, Celltech has released a provision for tax liabilities amounting to £28.5 million.

A breakdown of exceptional charges for the year is detailed below. The total expected cash impact of the exceptional charges is £20.0 million, of which £8.7 million has been spent during 2003. Celltech does not anticipate any further exceptional charges in 2004 related to the activities detailed above.

	£m
Write-off of CDP571 stocks	7.5
Closure of Santa Ana manufacturing facility	4.5
Closure of Seattle research facility	5.6
EU sales force restructuring	9.0
OGS integration	4.5
Development reorganisation	1.5
Write-down of investment in NeoGenesis	7.0
Other asset write-downs	0.9
Exceptional items before taxation	**40.5**
Partial release of tax provision	(28.5)
Tax credit on exceptional items	(3.2)
Total post-tax exceptional items	**8.8**

Partnering for strength

Celltech continues to operate its strategy of partnering for strength with major pharmaceutical and biotechnology companies. Such collaborations allow Celltech to pursue a diverse portfolio within a sustainable level of R&D expenditure through the assumption of development funding by partners. In addition, given Celltech's expectation of modest revenue growth during the next few years, milestone income from new and existing collaborations should allow the Company to maintain a steady earnings profile whilst ensuring it is able to maximise the value of its portfolio through appropriate investment in critical early-stage development activities.

Celltech continues to operate a policy of sourcing its biological products through long-term take-or-pay contracts with third party manufacturers. By operating a 'virtual' supply network, Celltech retains flexibility in scheduling the manufacture of its portfolio of products to accommodate the changing needs of its pipeline, without carrying the investment and overhead burden of a dedicated in-house manufacturing facility. In support of its growing pipeline, Celltech entered into a long-term supply agreement with Lonza during 2003, complementing its existing agreements with Sandoz and BioReliance.

Following the closure of its Seattle novel target discovery facility, Celltech will continue to source new disease targets through collaboration with external sources, in particular where these targets have a high degree of validation. Celltech recently entered a collaboration with Biogen Idec on the CD40L programme, and is discussing further deals to access novel disease targets. In addition, the acquisition of OGS has provided Celltech with six novel oncology targets that have been adopted as research programmes.

Strong financial management

Celltech's strategy is underpinned by maintaining a robust financial position through the rigorous control of costs and strong financial management of all aspects of its business. This approach

enables Celltech to garner cash to make the appropriate investments in its business and also to take advantage of external opportunities when these arise. Celltech's commercial operations provide a substantial source of funding for the Company, generating a cash inflow of £83 million during 2003.

A key issue for many UK companies during 2003 has been the sharp depreciation of the US dollar against sterling. As is typical in the pharmaceutical sector, a large component of Celltech's revenues arises in the US. During 2003, the average US dollar exchange rate was $1.64, compared to $1.50 for 2002. The effect of the weaker dollar was offset by gains on foreign exchange contracts of £10.5 million, which have been recorded as a component of royalty revenues.

In response to the planned new International Accounting Standard (IAS 39), Celltech has in place forward cover only in respect of its expected net royalty income for 2004. It is estimated that each $0.10 adverse movement versus the average 2003 rate of $1.64 will impact net profit before goodwill and restructuring items in 2004 by approximately £5 million.

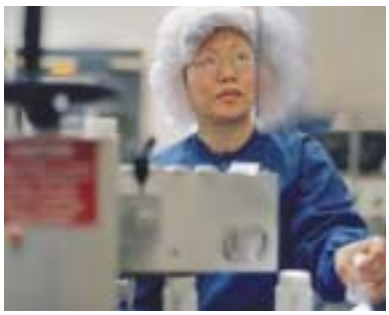
Celltech maintained a strong financial position during the year, with year-end cash and liquid resources of £155.0 million (2002: £105.1 million), notwithstanding cash outflows relating to exceptional items of £8.7 million and scheduled payments related to Celltech's acquisition of rights to Dipentum of £11.6 million. As noted above, the net

impact of the acquisition of OGS in 2003 was a small cash inflow of £0.3 million. Capital expenditure during the year increased to £16.2 million (2002: £11.8 million), reflecting major projects to extend laboratory facilities in Slough, to accommodate growth in the research activities at this site, and to upgrade the manufacturing facilities at its Ashton-under-Lyne contract manufacturing facility, as highlighted in the 2002 Annual Report.

The Group's treasury operations have been simplified during the year, with the repayment of the $50 million, five-year loan note in December 2003, and the early repayment of the £31 million convertible debt due from PowderJect Pharmaceuticals plc, following its acquisition by Chiron during 2003. The Group retains an undrawn £65 million, three-year revolving credit facility, designed to provide flexibility in its future funding arrangements. The increased cash resources during the year, and lower proportion of US-dollar funds, resulted in an increase in net interest income to £2.7 million (2002: £1.4 million).

As noted in the review of exceptional charges above, Celltech released a provision for taxes of £28.5 million during 2003, reflecting the resolution of most of the outstanding issues through 2000 with tax authorities in various jurisdictions. The release of tax provisions, a large proportion of which had been held by Medeva at January 2000, the date of its acquisition by Celltech, has been shown as an exceptional credit. Excluding the impact of exceptional items, the Group maintained a taxation rate of 15 percent for the year (2002: 15 percent). Celltech expects to maintain a taxation rate of not more than 20 percent for at least three years, based upon the current fiscal environments in the US and UK.

An issue faced by many companies is the funding of employee defined benefit pension schemes in the light of the recent performance of global equity markets. Celltech operates a mixture of defined benefit and money purchase pension schemes, with all new employees entering the latter schemes since 2000. The funding of Celltech's defined benefit pension schemes on a SSAP 24 valuation basis, reflecting how these schemes are actually managed, remains satisfactory, with a deficit of £6.2 million. The deficit largely arises in



the UK scheme and is being reduced by an increased contribution rate by the Company, following advice from the scheme actuary. Under the FRS 17 valuation basis, which is considered less appropriate for Celltech in the light of the low age profile of its scheme members, these schemes currently show a deficit of £25.5 million, amounting to 39 percent of scheme assets.

The global insurance environment remained difficult during the year. This was particularly so with Directors and Officers liability insurance, reflecting the impact of several large corporate failures during the last few years. Celltech recorded a charge of £3.0 million during the year relating to its subsidiary captive insurance company, which underwrites certain areas of product liability risk. The full year charge for insurance increased by 29 percent, impacting particularly on the general and administrative costs.

In view of its desire to maintain financial flexibility to take advantage of opportunities as and when they arise, and in line with international biotechnology peer group companies, Celltech does not propose payment of a dividend for 2003.

Future accounting developments

Celltech anticipates that the adoption of IAS as from 1 January 2005 will impact its future results. In particular, companies will be required to expense the option value of share options issued to staff through the profit and loss account. At the moment no charges arise under UK GAAP as options are granted at market value. A further draft IAS covering revenue recognition is currently under review and may impact the way Celltech currently accounts for milestone payments and signature fees arising from product collaborations. Finally, IAS 39 introduces more stringent criteria for hedge accounting in respect of forward cover.

Given the uncertainty regarding the implementation date and final form of these IASs Celltech intends to issue detailed guidance of their impact, including historical financials, following their effective date of implementation. The IAS Board has significant ongoing projects that may lead to additional changes which to date have not been quantified.

Dr P J Fellner *#∞
(60) Chairman
Appointed as Chairman of the Board of Celltech in April 2003, after serving as Chief Executive since 1990. He joined Celltech from Roche UK where he was Chief Executive. He was previously Director of the Roche UK Research Centre. Dr Fellner is also Chairman of Vernalis plc, and two privately held companies, Astex Technology Limited and Ionix Pharmaceuticals Ltd, and is a Director of Isis Innovation Ltd. He is a member of the UK Medical Research Council.

Dr G A Ando #∞
(55) Group Chief Executive
Joined the Board of Celltech in April 2003 from Pharmacia Corporation where he was Executive Vice President and President of R&D until its acquisition by Pfizer Inc. At Pharmacia he also had executive responsibility for business development, including mergers and acquisitions, and for manufacturing. Dr Ando's previous appointments included a period as R&D Director for Glaxo Group Research.

Mr P V Allen ACA
(48) Chief Financial Officer and Deputy Chief Executive
Joined Celltech in 1992 as Finance Director from Associated British Ports Holdings plc where he was Group Financial Controller. Prior to that he was Group Controller at L'Oreal (UK). He was appointed Deputy Chief Executive in April 2003.

Dr M G Lee FMedSci ∞
(45) Research and Development Director
Joined Celltech in September 1998 as Director of Research 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 Cancer Research Technology Ltd, the technology transfer subsidiary of Cancer Research UK. In 2003 she was elected a Fellow of the Academy of Medical Sciences.

Mrs I Saunders
(54) Global Commercial Director
Joined Celltech in 2001 and was appointed to the Board on 22 October 2003. In 1992 Mrs Saunders became Vice President, International Operations at the head office of Novo Nordisk. She moved throughout Novo Nordisk, working in Business Development, Health Care Strategy and became President of the Pharmaceuticals Division. Her last position was as Managing Director, Ireland/UK and Vice President Novo Nordisk Europe.

Dr P J Fellner Chairman

Dr G A Ando Chief Executive
P V Allen Chief Financial Officer and Deputy Chief Executive

Dr M G Lee Research and Development Director
Mrs I Saunders Global Commercial Director

Sir Tom Blundell FRS,KB,FMedSci *#∞
(61)
Joined the Board of Celltech in 1997. He is a William Dunn Professor and Head of the Department of Biochemistry and Chair of School of Biological Sciences 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 the Science and Technology Committee.

Prof C R W Edwards MD,FRCP,FRCPEd, FRSE, F MedSci,Hon Dsc *#o∞
(62)
Joined the Board of Celltech in 1997. He is Vice-Chancellor of the University of Newcastle-upon-Tyne and was formerly Principal of Imperial College School of Medicine, London. He is a Governor of the Wellcome Trust, a member of the Board of One North East, the Regional Development Agency, and a co-founder and Board member of Argenta Discovery Ltd.

M G Newmarch *o
(65)
Joined the Board of Celltech in 1996. 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.

Dr M E Jaffe BA,MD *+∞
(67)
Joined the Board of Celltech in August 1999, from Chiroscience Group plc. 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 former Director of Vernalis plc.

Dr P R Read CBE,FRCP,FFPM *+o
(65)
Joined the Board of Celltech in March 2000 from Medeva plc. 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 plc, SSL International Group plc and a Board member of the South East of England Development Agency (SEEDA). He is Chairman of Celltech's Remuneration Committee.

Mr P H G Cadbury *+#
(60)
Joined the Board of Celltech in April 2003. He has his own corporate advisory firm and is Non-Executive Chairman of DTZ Corporate Finance Ltd. Previously he was Deputy Chairman of Morgan Grenfell and Chairman of Close Brothers Corporate Finance.

Mr P G Rogerson *+o
(59)
Joined the Board in March 2003. He is Celltech's Senior Independent Director. He is also Chairman of Aggreko plc and Viridian Group plc and Chairman or Non-Executive Director of a number of other companies.

* Non-Executive
\+ Member of the Remuneration Committee
o Member of the Audit Committee
\# Member of the Nomination Committee
∞ Member of the Science and Technology Committee

Sir Tom Blundell
Prof C R W Edwards

M G Newmarch
Dr M E Jaffe
Dr P R Read

Mr P H G Cadbury
Mr P G Rogerson

Directors' Report

for the year ended 31 December 2003

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 2003. The Remuneration Report can be found on pages 28 to 37 and the Corporate Governance Report, including the Corporate Social Responsibility (CSR) statement, can be found on pages 38 to 44.

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 Officer's Statements and the Group and Operational Reviews. These events include the following:

On 26 February 2003 Celltech announced an offer of 182p per share in cash for the entire issued share capital of Oxford GlycoSciences plc (OGS).

On 16 April 2003 Celltech announced the appointment of Dr Göran Ando as Chief Executive, the retirement of Mr John Jackson as Chairman and the appointment of Dr Peter Fellner as Chairman.

On 16 April 2003 Celltech declared the Offer for OGS unconditional in all respects.

On 25 April 2003 Celltech announced that Merck was suspending the Phase II development of its lead Phosphodiesterase4 (PDE4) inhibitor.

On 19 May 2003 Celltech announced the launch of its new specialist UK pharmaceutical sales and marketing organisation.

On 16 June 2003 Celltech announced that the Israeli Ministry of Health had granted Marketing Authorisation for Zavesca (miglustat) capsules.

On 17 July 2003 Celltech announced that it had entered into a long-term supply agreement with Lonza Biotec, a division of Lonza Group, under which Lonza Biotec would manufacture PEGylated antibody fragment based drugs for Celltech. Celltech and Lonza also announced settlement of their CDP571 manufacturing agreement.

On 18 July 2003 Celltech announced that it had completed the compulsory acquisition of the remaining shares in OGS.

On 1 August 2003 Celltech announced that the US Food and Drug Administration (FDA) had approved Zavesca (miglustat) capsules.

On 28 October 2003 Celltech announced the achievement of its first milestone in its agreement with Amgen Inc for the research, development and global commercialisation of novel treatments for osteoporosis.

On 30 October 2003 Celltech announced that it had licensed European sales and marketing rights to Xyrem (sodium oxybate) oral solution from Orphan Medical Inc.

On 13 November 2003 Celltech announced an update on the clinical development programme for CDP870, its PEGylated anti-TNFα antibody fragment, in particular Pfizer's notification to Celltech that it planned to postpone the initiation of the remaining Phase III clinical trials pending the results of the two ongoing studies and its desire to renegotiate the financial terms of its collaboration with Celltech, originally established with Pharmacia in March 2001.

On 19 November 2003 Celltech announced the closure of its Seattle research facility, designed to rebalance resources between its research and development activities.

On 1 December 2003 Celltech announced that it would regain full rights to CDP870, its PEGylated anti-TNFα antibody fragment, from Pfizer during early 2004.

Results and dividends

Turnover for the year amounted to £353.3 million (2002: £329.6 million). The Directors do not recommend payment of a dividend (2002: £nil).

Directors

Membership of the Board (together with Directors' biographies) is shown on pages 24 and 25. 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 28 to 37. There have been no changes to Directors' interests from 31 December 2003 to the date of this document, other than those set out on page 34. Mr Jackson, Mr Baker and Mr Collum retired during the year and Dr Ando, Mr Rogerson, Mr Cadbury and Mrs Saunders were appointed to the Board during the year. Dr Ando, Mr Cadbury and Mrs Saunders will be seeking election at this year's AGM.

None of the Directors has any interest in any contract of significance, other than disclosed in note 25 of the accounts.

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 percent and 40 percent (50 percent in the case of the Chief Executive) of salary depending on grade. The second

scheme is a Deferred Bonus Plan under which awards can be made to selected Directors and Senior Executives over shares up to 100 percent of a participant's annual bonus. The shares subject to awards are held in the Celltech Group plc Employee Share Trust and are available for release from the first and second anniversary from the date of grant. 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 Executive share options takes into account a review of the future potential contribution of individual employees. During the year the Company expanded the sharesave scheme on an international basis for all its eligible employees worldwide.

Employee involvement

During the year, Celltech continued its policy of providing employees with information about the Group through regular presentations by Executive Directors and senior management, the Group's intranet 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.

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.

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 ended 2003 was 33 days. The Company has no trade creditors.

Political and charitable donations

During the year Celltech made contributions amounting to £4,900 (2002: £22,000) to charitable organisations in the UK. There were no political donations (2002: £nil).

Significant shareholdings

As at 15 March 2004 Celltech had received notification from the following institutions of interests in 3 percent or more of the issued ordinary share capital of the Company.

AMVESCAP PLC	15.15%
The Capital Group Companies	12.59%
Fidelity International Limited	11.13%
Goldman Sachs	3.96%
Franklin Resources Inc	3.43%

Share price

The mid-market share price as derived from the London Stock Exchange Daily Official List was 378p on 31 December 2003. The mid-market share price ranged from 250p to 459p during the year 1 January 2003 to 31 December 2003 (2002 financial year: 290p to 902p). The average share price for the year was 338p.

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 27 May 2004 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
15 March 2004

Directors' Remuneration Report

Introduction

This Report has been prepared in compliance with the UKLA Listing Rules and the disclosure provisions under Schedule 7A of the Companies Act 1985. In accordance with these provisions, 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 for the first part of the year were Mr Collum (Chairman), Mr Jackson and Dr Jaffe. Following the retirement of Mr Jackson and Mr Collum from the Board, Dr Read, Mr Rogerson and Mr Cadbury were appointed to the Committee (Dr Read as Chairman). Dr Jaffe remains a member of the Committee. The Committee met three times during 2003 and seeks independent advice, where appropriate, for the purpose of determining all aspects of the remuneration of Executive Directors. The remuneration of each Executive Director is determined by the Committee (including the award of annual bonuses and share options), as are the terms of their service agreements. When appropriate, the Committee invites the views of the Group Chairman, Dr Fellner, Group Chief Executive Dr Ando, Group Human Resources Director, Mr Nicholls and commissions reports from expert remuneration consultants. In determining salary and bonus levels for 2003, the Committee took account of a report on executive directors' remuneration published by Deloitte & Touche in October 2002. During 2003 Deloitte & Touche has 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 on remuneration, the Committee has concluded that there is need for an updated review of the current benchmarks and measures used to determine Executive Directors' remuneration. The Committee has recently appointed Deloitte & Touche to advise the Committee on this review which, in proposing a forward-looking remuneration policy, will take full account of current best practice and the Company's size and complexity and business sector comparisons. Celltech is one of Europe's largest biotechnology companies and also operates a significant business within the US. It is and will continue to be Celltech's policy to provide remuneration generally at levels that are competitive with companies of equivalent size and complexity. It remains the objective of the Board, advised by the Committee, to provide remuneration packages that are competitive and designed to attract, retain and motivate Executive Directors and senior management of the highest calibre.

As well as base salaries, Executive Directors are eligible for performance-related bonuses and medium/long-term incentives thus providing for a high proportion of total remuneration to be performance related. Performance measures are balanced between absolute financial measures and company comparator indicators with the aim of achieving alignment between Executive Director and shareholder objectives.

All medium and 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 shareholders, Celltech expects Executive Directors to commit to building and maintaining a personal shareholding of approximately one times base salary. The application of the Company's current policy to the remuneration of any person who serves as an Executive Director of the Company is set out below.

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, are explained further below.

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

  In determining salary levels for 2003, the Committee took into account the findings of the report published by Deloitte & Touche in October 2002, referred to earlier, as a reference for its comparator company review. The Committee continued the policy, based upon the framework established in 2001, of setting Executive Directors' salaries in broad alignment with the mid-points of a bespoke comparator group drawn from the lower 30 constituents of the FTSE 100 and the upper 50 constituents of the FTSE mid-250 index adjusted to reflect company size and complexity. This bespoke group, 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.

- **Performance-related bonuses**
  Executive Directors are eligible for an annual discretionary bonus, whereby performance objectives for each Executive Director are established at the beginning of the financial year by reference to corporate and individual achievements. Performance-related payments may be paid annually, dependent upon achievements measured against objectives. Executive Directors are entitled to bonuses in the form of cash and a deferred bonus under the Company's Deferred Bonus Plan. Cash bonuses are limited to a maximum of 40 percent of base salary for each Executive Director (with a maximum of 50 percent in the case of the Group Chief Executive).

  Deferred bonus awards may be made over shares having a value of up to 100 percent 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. Deferred 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.

The overall effect allows for Executive Directors to be awarded up to 80 percent of their base salary as performance-related bonuses (100 percent in the case of the Group Chief Executive).

- **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. The scheme was proposed on the basis that measurement of performance from a fixed date, coupled with non-exercisability of options after five years if the target was not met, reflected the core principles of the Association of British Insurers Guidelines applicable at the time. The scheme will be reviewed as part of the overall remuneration policy review to be undertaken with Deloitte & Touche in 2004.

The Committee reviews annually the most appropriate performance measures based upon which options may be granted and/or become exercisable. The Committee 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 or another measure may be more appropriate. The comparator group selected for performance measurement was a total of approximately 80 companies, comprising larger members of the FTSE mid-250 index and smaller members of the FTSE 100 index. This comparator group 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 2003 awards), excluding the Company, are:

Dixons Group
Shire Pharmaceuticals
ICI
Reuters Group
Rexam
Cable & Wireless
Canary Wharf Group
Provident Financial
Hays
GKN
Tate & Lyle
Antofagasta
Slough Estates
P&O
Signet Group
Rolls-Royce
Jardine Lloyd Thompson
Travis Perkins
Misys
Electrocomponents

Taylor Woodrow
Debenhams (delisted 5.12.03)
Enterprise Inns
First Group
William Hill
RMC Group
ICAP
Matalan
Berkeley Group
International Power
Easyjet
EMI Group
LogicaCMG
Viridian Group
Close Brothers
Galen Holdings
MFI
Inchcape
WH Smith
Kelda Group

Whitbread
Exel
Capita Group
Tomkins
Granada (now ITV)
Xstrata
Alliance Unichem
Schroders plc
Friends Provident
Rank Group
Hammerson
Associated British Ports Hldgs
BPB
Burberry Group
Trinity Mirror
Persimmon
Lonmin
Brambles Industries
Cobham
British Airways

Wimpey
AWG
Johnston Press
Barratt Developments
Cattles
Royal & Sun Alliance Insurance
Aggregate Industries
IMI
Pennon Group
BBA Group
Egg
Wood Group
Wilson Bowden
United Business Media
Northern Foods
Davis Service Group plc
Thistle Hotels
Arriva
Eurotunnel PLC

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 has not normally exceeded 1.5 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 percent.

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 pages 36 and 37. 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 percent 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 2003, are set out on pages 34 to 36.

- **Pensions and other benefits (audited)**

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. In recognition of the significant and valuable services Dr Fellner provided to the Company in his 12 years as Chief Executive the Remuneration Committee unanimously agreed to fulfil the Company's obligation to provide a pension to Dr Fellner at the age of 60. Accordingly, a full year's contribution was made in 2003 to Dr Fellner to his normal retirement age of 60 as at 31 December 2003. The Company's contribution is disclosed in the remuneration table on page 33.

Mrs Ingelise Saunders is a member of the Celltech Group Personal Pension Plan, which is a defined contribution scheme. The Company's contribution is disclosed in the remuneration table on page 33.

Dr Göran Ando, Mr Peter Allen and Dr Melanie Lee 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.

The potential benefits arising from the CP&LAS in 2003 were as follows:

Name	P V Allen	M G Lee	G Ando
Age	48	45	55
Service	11 years 325 days	5 years 92 days	259 days
Accrued pension as at 1/1/03	£35,283	£13,776	–
Inflation	£600	£234	–
Increase in annual pension accruing in 2003	£3,356	£3,322	£2,342
Accrued annual pension as at 31/12/03	£39,239	£17,332	£2,342
Transfer value of accrued pension at the start of the year based on market conditions at 31/12/02	£321,378	£114,220	–
Employee contribution	£5,913	£5,913	£4,188
Increase in cash equivalent transfer value of pension arising in 2003 less member contributions paid in 2003.	£46,059	£29,720	£27,289
Transfer value of accrued pension at the end of the year based on market conditions as at 31/12/03	£373,350	£149,853	£31,477

The increase in transfer value of pension arising in 2003 less member contributions paid in 2003 was £26,765 for Mr Allen, £23,076 for Dr Lee and £27,289 for Dr Ando.

Appointment of Directors and service contracts

Service contracts for Executive Directors (including those subject to election at this year's AGM) provide for 12 months' notice of termination by the Company. A Director or the Company may also serve three months' notice of termination within six months after a change of control of the Company. The Committee believes that the inclusion of a 'change of control' provision in a Director's service contract is in the best interests of the Company and provides a means for attracting, retaining and motivating Directors. Contractual compensation payable on termination following a change of control is no greater than that payable on termination subject to 12 months' notice as set out below.

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 12 months' notice. Typically, on termination, Directors have been paid contractual compensation (salary, bonus and non-cash benefits) in lieu of 12 months' notice as set out below.

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.

On 16 April 2003, Dr Fellner was appointed Chairman of Celltech. As such, he is engaged by a letter of appointment, which sets out his duties and responsibilities and confirms his remuneration (see Non-Executive section below).

Dr Göran Ando was appointed on 16 April 2003, with a contract that can be terminated by either the Company or Dr Ando on one year's notice. The contract automatically terminates on Dr Ando's 60th birthday. Upon early termination Dr Ando is entitled to 12 months' salary, bonus and benefits in lieu of notice. In order to attract a Chief Executive of Dr Ando's stature from overseas the Remuneration Committee was advised that it would be necessary to offer full relocation reimbursement. Accordingly an allowance of £336,100 together with reimbursement costs of £51,688 was approved by the Remuneration Committee in order to secure the services of Dr Ando.

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 60th birthday. Upon early termination, Mr Allen is entitled to 12 months' salary, bonus and 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 60th birthday. Upon early termination, Dr Lee is entitled to 12 months' salary, bonus and benefits in lieu of notice.

Mrs Ingelise Saunders joined the Company on 1 September 2001, with a contract that can be terminated on one year's notice. Upon early termination, Mrs Saunders is entitled to 12 months' salary, bonus and benefits in lieu of notice. She was appointed a Director on 22 October 2003.

Policy on Non-Executive Directors' appointment and fees

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.

Mr Jackson was appointed as Chairman on 2 September 1987. He retired from the Board on 16 April 2003.

Dr Fellner was appointed to the Board on 1 October 1990 as Chief Executive. He became Non-Executive Chairman on 16 April 2003. 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 and is explained in the Corporate Governance report on page 42. Dr Fellner's appointment is for an initial period of three years. At the end of the initial period his Chairmanship can be renewed for a further period subject to him and the Board agreeing. He is entitled to resign and the Company is entitled to terminate his position at any time, in accordance with the Company's Articles of Association, by the giving of at least one month's prior written notice. Dr Fellner's letter states that he must allocate sufficient time to meet the requirements of his role and that agreement of the Board should be sought before accepting additional commitments.

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. Mr Collum retired from the Board on 10 July 2003. Dr Jaffe's appointment has subsequently been extended. He will retire from the Board at the AGM in May 2004.

Dr Read and Mr Baker were appointed on 9 March 2000 for an initial period of two years from 25 May 2000, when the appointments were ratified by shareholders at the AGM. Mr Baker retired from the Board on the 22 May 2003. Dr Read's appointment has subsequently been extended and may be renewed for further periods of three years subject to him and the Board agreeing.

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

Mr Rogerson (Senior Independent Director) was appointed on 12 March 2003 for an initial period of three years. At the end of the initial period his directorship can be renewed for a further period subject to him and the Board agreeing. He is entitled to resign and the Company is entitled to

terminate his position at any time, in accordance with the Company's Articles of Association, by the giving of at least one month's prior written notice. Mr Rogerson's letter states that he must allocate sufficient time to meet the requirements of his role and that agreement of the Chairman should be sought before accepting additional commitments.

Mr Cadbury was appointed on 10 April 2003 for an initial period of three years. At the end of the initial period his directorship can be renewed for a further period subject to him and the Board agreeing. He is entitled to resign and the Company is entitled to terminate his position at any time, in accordance with the Company's Articles of Association, by the giving of at least one month's prior written notice. Mr Cadbury's letter states that he must allocate sufficient time to meet the requirements of his role and that agreement of the Chairman should be sought before accepting additional commitments.

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.

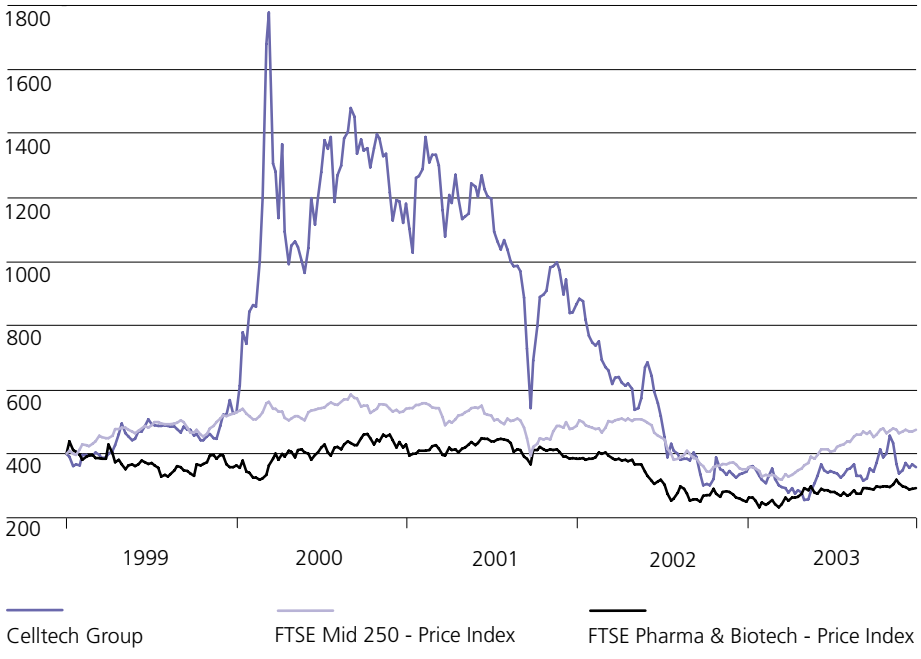
Non-Executive Directors' fees are paid in line with market practice and are reviewed annually. The Non-Executive Directors are paid out of the funds of the Company by way of remuneration for their services as Directors, such fees not exceeding in aggregate £600,000 per annum (or such larger sum as the Company may, by ordinary resolution, determine). The Board determines the fees of the Non-Executive Directors.

Other than the Chairman and Senior Independent Director, all Non-Executive Directors are paid an annual fee of £30,000 plus an attendance fee of £500 for each Board meeting attended. Non-Executive Directors also serving as Board Committee Chairmen are paid an additional annual fee as follows:

Audit Committee Chairman	£10,000
Remuneration Committee Chairman	£7,500
Nomination Committee Chairman	£5,000
Science and Technology Committee Chairman	£12,000

The Chairman of the Board is paid an annual fee of £170,000; the Senior Independent Director is paid an annual fee of £50,000.

Share Price Performance
The graph below shows the performance of the Company's share price over the previous five years compared to the FTSE mid-250 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. The information below shows the total return on a company's share from the period 1 January 1999 to 31 December 2003.



Directors' remuneration (audited)

	Salary /fees 2003 £000	Bonus 2003 £000	Benefits 2003 £000	Other 2003 £000	Sub Total 2003 £000	Sub Total 2002 £000	Pension allowance 2003 £000	Pension allowance 2002 £000	Total 2003 £000	Total 2002 £000
Executive Directors										
Dr P J Fellner [1] [3]	**133.2**	**115.5**	**6.5**	**–**	**255.2**	860.4	**520.0**	418.7	**775.2**	1,279.1
Dr G A Ando (highest paid Director) [2] [4]	**373.7**	**336.4**	**66.7**	**336.1**	**1,112.9**	–	**91.2**	–	**1,204.1**	–
P V Allen [3] [4]	**358.5**	**243.8**	**13.0**	**–**	**615.3**	526.6	**78.0**	60.9	**693.3**	587.5
Dr M G Lee [3] [4]	**310.0**	**209.0**	**20.7**	**–**	**539.7**	498.0	**63.4**	56.5	**603.1**	554.5
I Saunders [3] [5]	**52.3**	**39.4**	**2.2**	**–**	**93.9**	–	**21.1**	–	**115.0**	–
S C Cartmell [14]	**–**	**–**	**–**	**–**	**–**	440.3	**–**	12.7	**–**	453.0
Non-Executive Directors										
Dr P J Fellner [1]	**101.3**	**–**	**–**	**–**	**101.3**	–	**–**	–	**101.3**	–
J B H Jackson [6]	**35.0**	**–**	**–**	**–**	**35.0**	120.0	**–**	–	**35.0**	120.0
Sir Tom Blundell [7]	**44.3**	**–**	**–**	**–**	**44.3**	37.0	**–**	–	**44.3**	37.0
Prof. C R W Edwards	**32.8**	**–**	**–**	**–**	**32.8**	25.0	**–**	–	**32.8**	25.0
M G Newmarch [8]	**40.5**	**–**	**–**	**–**	**40.5**	30.0	**–**	–	**40.5**	30.0
Dr P R Read [9]	**40.5**	**–**	**–**	**–**	**40.5**	30.0	**–**	–	**40.5**	30.0
Dr M E Jaffe	**32.3**	**–**	**–**	**–**	**32.3**	25.0	**–**	–	**32.3**	25.0
P H G Cadbury [10]	**28.9**	**–**	**–**	**–**	**28.9**	–	**–**	–	**28.9**	–
P G Rogerson [11]	**35.8**	**–**	**–**	**–**	**35.8**	–	**–**	–	**35.8**	–
H R Collum [12]	**25.9**	**–**	**–**	**–**	**25.9**	40.0	**–**	–	**25.9**	40.0
J W Baker [13]	**17.1**	**–**	**–**	**–**	**17.1**	40.0	**–**	–	**17.1**	40.0
Total	**1,662.1**	**944.1**	**109.1**	**336.1**	**3,051.4**	2,672.3	**773.7**	548.8	**3,825.1**	3,221.1

(1) From 1 January 2003 until 16 April 2003 Dr Fellner held the post of Chief Executive and as such his remuneration for this period is shown under the Executive Directors heading. During March 2003 a cash payment of £508,995 was made to Dr Fellner as a contribution to his pension plan. This payment is included within the pension contributions. On 16 April 2003 Dr Fellner retired as CEO and was appointed Non-Executive Chairman and from this date until 31 December 2003 his fees are shown under the Non-Executive Directors heading.

(2) Dr Ando was appointed Group Chief Executive of Celltech on 16 April 2003 and his salary and benefits are shown from this date. Dr Ando received £51,688 costs towards his relocation from the US. This is included within his benefits. He also received a cash payment identified as 'Other' in relation to his relocation (see page 31).

(3) The bonus listed above relates to the year ended 31 December 2003. The bonus includes the deferred bonus, which (apart from in the case of Dr Fellner) 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 percent of the total bonus.

(4) 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 Directors to compensate for the earnings cap.

(5) The payments relate to the period from 22 October 2003, when Mrs Saunders was appointed to the Board, to 31 December 2003.

(6) The payments relate to the period from 1 January 2003 to 16 April 2003 when Mr Jackson retired from the Board.

(7) Includes £12,000 payment as Chairman of the Science and Technology Committee.

(8) Includes £8,750 as Chairman of the Audit Committee.

(9) Includes £5,000 payment as Chairman of the Trustees of the Celltech Pension and Life Assurance Scheme for the year ended 31 December 2003 and £3,750 payment as Chairman of the Remuneration Committee for the period 1 July 2003 to 31 December 2003.

(10) The payments relate to the period from 10 April 2003, when Mr Cadbury was appointed to the Board, to 31 December 2003, includes £3,623 payment as Chairman of Nomination Committee.

(11) The payments relate to the period from 12 March 2003, when Mr Rogerson was appointed to the Board, to 31 December 2003.

(12) The payments relate to the period from 1 January 2003 to 10 July 2003 when Mr Collum retired from the Board.

(13) The payments relate to the period from 1 January 2003 to 22 May 2003 when Mr Baker retired from the Board.

(14) In 2002 £371,300 related to compensation for loss of office.

Directors' Remuneration Report
continued

Directors' interests in shares (unaudited)
The Directors who held office at 31 December 2003 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 over 50p ordinary shares	
	31.12.03 or date of resignation	31.12.02 or date of appointment	**31.12.03 or date of resignation**	31.12.02 or date of appointment
J B H Jackson*	**100,000**	100,000	**–**	–
Dr P J Fellner	**313,588**	313,588	**602,425**	526,943
Dr G A Ando	**30,000**	–	**845,571**	–
P V Allen	**112,601**	104,096	**559,368**	240,919
J W Baker*	**11,500**	11,500	**–**	–
Sir Tom Blundell	**–**	–	**–**	–
P H G Cadbury	**10,000**	–	**–**	–
H R Collum*	**10,465**	10,465	**–**	–
Prof C R W Edwards	**936**	936	**–**	–
Dr M E Jaffe	**1,220**	1,220	**–**	–
Dr M G Lee	**34,255**	28,420	**554,750**	278,784
M G Newmarch	**10,000**	10,000	**–**	–
Dr P R Read	**1,985**	1,985	**–**	–
P G Rogerson	**–**	–	**–**	–
I Saunders	**–**	–	**321,268**	321,268

* Mr Jackson retired from the Board on 16 April 2003, Mr Baker retired from the Board on 22 May 2003 and Mr Collum retired from the Board on 10 July 2003.

There have been the following movements in Directors' interests since 31 December 2003.

The Executive Directors, being potential beneficiaries under the Celltech Group plc Employee Share Trust (the Trust), technically became interested in 272,123 shares by virtue of the Trust acquiring such shares on 8 January 2004, for a consideration of £1,000,018. These shares were acquired to meet future awards made under the Celltech Deferred Bonus Plan.

On 2 February 2004 Dr Jaffe disposed of 620 shares.

There have been no further changes in Directors' interests between 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 31.12.02	Number granted	Number lapsed during year	Number exercised during year	**Number at 31.12.03 or date of resignation if earlier**	Varied during period	Exercise price £	Market price on date exercised £	Exercise period	Category
Dr G A Ando	–	10,452	–	–	**10,452**	–	2.87	–	23.04.2006 – 21.4.2013	A2
	–	728,223*	–	–	**728,223**	–	2.87	–	23.04.2006 – 21.4.2013	D1
	–	106,896	–	–	**106,896**	–	2.87	–	23.04.2006 – 21.4.2013	NI
Dr P J Fellner	120,000	–	–	–	**120,000**	–	5.80	–	19.08.1999 – 30.06.2004	B1
	48,261	–	–	–	**48,261**	–	9.73	–	27.04.2003 – 30.06.2004	B2
	24,039	–	–	–	**24,039**	–	9.73	–	27.04.2003 – 30.06.2004	B3
	49,776	–	–	–	**49,776**	–	11.15	–	05.04.2004 – 30.06.2004	B2
	52,466	–	–	–	**52,466**	–	11.15	–	05.04.2004 – 30.06.2004	B3
	2,690	–	–	–	**2,690**	–	11.15	–	05.04.2004 – 30.06.2004	A
	1,021	–	(1,021)	–	**–**	–	9.48	–	01.06.2004 – 30.11.2004	C
	154,878	–	–	–	**154,878**	–	6.15	–	Due to lapse on 30.06.2004	D1
	20,920	–	–	–	**20,920**	–	6.15	–	Due to lapse on 30.06.2004	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

	Number at 31.12.02	Number granted	Number lapsed during year	Number exercised during year	**Number at 31.12.03 or date of resignation if earlier**	Varied during period	Exercise price £	Market price on date exercised £	Exercise period	Category
Dr P J Fellner	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
	–	33,354	–	–	**33,354**	–	–	–	25.03.2004 – 25.03.2013	DE
	–	33,355	–	–	**33,355**	–	–	–	25.03.2005 – 25.03.2013	DE
	–	4,897	–	–	**4,897**	–	–	–	25.03.2004 – 25.03.2013	NI
	–	4,897	–	–	**4,897**	–	–	–	25.03.2005 – 25.03.2013	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
	1,855	–	(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
	–	248,257	–	–	**248,257**	–	2.87	–	23.04.2006 – 21.04.2013	D1
	–	36,442	–	–	**36,442**	–	2.87	–	23.04.2006 – 21.04.2013	NI
	–	3,987	–	–	**3,987**	–	2.37	–	01.06.2006 – 30.11.2006	C
	4,252	–	–	(4,252)	**–**	–	–	3.60	08.01.2002 – 08.01.2011	DE
	4,253	–	–	(4,253)	**–**	–	–	3.60	08.01.2003 – 08.01.2011	DE
	575	–	–	(575)	**–**	–	–	3.60	08.01.2002 – 08.01.2011	NI
	575	–	–	(575)	**–**	–	–	3.60	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
	–	17,994	–	–	**17,994**	–	–	–	25.03.2004 – 25.03.2013	DE
	–	17,995	–	–	**17,995**	–	–	–	25.03.2005 – 25.03.2013	DE
	–	2,642	–	–	**2,642**	–	–	–	25.03.2004 – 25.03.2013	NI
	–	2,642	–	–	**2,642**	–	–	–	25.03.2005 – 25.03.2013	NI
Dr M G Lee	76,080	–	–	–	**76,080**	–	2.625	–	19.08.1999 – 23.09.2008	B1
	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
	–	4,158	–	–	**4,158**	–	2.37	–	01.06.2008 – 30.11.2008	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
	–	10,452	–	–	**10,452**	–	2.87	–	23.04.2006 – 21.04.2013	A2
	–	202,265	–	–	**202,265**	–	2.87	–	23.04.2006 – 21.04.2013	D1
	–	29,691	–	–	**29,691**	–	2.87	–	23.04.2006 – 21.04.2013	NI
	2,917	–	–	(2,917)	**–**	–	–	3.542	08.01.2002 – 08.01.2011	DE
	2,918	–	–	(2,918)	**–**	–	–	3.542	08.01.2003 – 08.01.2011	DE
	394	–	–	(394)	**–**	–	–	3.542	08.01.2002 – 08.01.2011	NI
	394	–	–	(394)	**–**	–	–	3.542	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
	–	16,623	–	–	**16,623**	–	–	–	25.03.2004 – 25.03.2013	DE
	–	16,624	–	–	**16,624**	–	–	–	25.03.2005 – 25.03.2013	DE
	–	2,441	–	–	**2,441**	–	–	–	25.03.2004 – 25.03.2013	NI
	–	2,441	–	–	**2,441**	–	–	–	25.03.2005 – 25.03.2013	NI

	Number at 31.12.02	Number granted	Number lapsed during year	Number exercised during year	**Number at 31.12.03 or date of resignation if earlier**	Varied during period	Exercise price £	Market price on date exercised £	Exercise period	Category
I Saunders	3,370	–	–	–	**3,370**	–	8.90	–	20.10.2004 – 19.10.2011	A2
	30,337	–	–	–	**30,337**	–	8.90	–	20.10.2004 – 19.10.2011	D1
	4,095	–	–	–	**4,095**	–	8.90	–	20.10.2004 – 19.10.2011	NI
	53,073	–	–	–	**53,073**	–	6.15	–	10.04.2005 – 08.04.2012	D1
	7,169	–	–	–	**7,169**	–	6.15	–	10.04.2005 – 08.04.2012	NI
	–	165,418	–	–	**165,418**	–	2.87	–	23.04.2006 – 21.04.2013	D1
	–	24,282	–	–	**24,282**	–	2.87	–	23.04.2006 – 21.04.2013	NI
	1,496	–	–	–	**1,496**	–	–	–	14.03.2003 – 14.03.2012	DE
	1,497	–	–	–	**1,497**	–	–	–	14.03.2004 – 14.03.2012	DE
	202	–	–	–	**202**	–	–	–	14.03.2003 – 14.03.2012	NI
	202	–	–	–	**202**	–	–	–	14.03.2004 – 14.03.2012	NI
	–	11,396	–	–	**11,396**	–	–	–	25.03.2004 – 25.03.2013	DE
	–	11,397	–	–	**11,397**	–	–	–	25.03.2005 – 25.03.2013	DE
	–	1,673	–	–	**1,673**	–	–	–	25.03.2004 – 25.03.2013	NI
	–	1,674	–	–	**1,674**	–	–	–	25.03.2005 – 25.03.2013	NI
	1,113	–	(1,113)	–	**–**	–	5.12	–	01.06.2005 – 30.11.2005	C
	–	3,987	–	–	**3,987**	–	2.37	–	01.06.2006 – 30.11.2006	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

A2 = approved options granted under the Celltech Group plc 2001 Discretionary Share Option Scheme

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 or will convert into an option at the first exercise date. 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

*Performance condition of median plus 5 percent applies to 369,338 of these options (see longer-term performance incentives, page 29).

On 9 January 2003, Mr Allen exercised an option over 8,505 shares acquired through the Deferred Bonus Scheme and 1,150 NI options linked to the Deferred Bonus Scheme. The 1,150 shares were sold in order to meet the employer's NIC. Mr Allen retained 8,505 shares. The share price on that date was 360p, generating a benefit of £30,616.

On 15 January 2003, Dr Lee exercised an option over 5,835 shares acquired through the Deferred Bonus Scheme and 788 NI options linked to the Deferred Bonus Scheme. The 788 shares were sold in order to meet the employer's NIC. Dr Lee retained 5,835 shares. The share price on that date was 354.2p, generating a benefit of £20,666.

The performance criteria on which the exercise of a share option is conditional are indicated below. 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 378p on 31 December 2003. The mid-market share price ranged from 250p to 459p during the year 1 January 2003 to 31 December 2003 (2002 financial year: 290p to 902p). The average share price for the year was 338p.

Performance conditions for the Celltech Group 2001 Discretionary Share Option Scheme are set out earlier in this report (see longer-term performance incentives on page 29).

Performance conditions for Celltech Chiroscience 1999 Scheme are as follows:

For options granted under the Inland Revenue 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 percent 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 percent 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 Inland Revenue non-approved 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 percent per annum compounded over the same period.

By order of the Board

Dr P R Read
Chairman of the Remuneration Committee
15 March 2004

Corporate Governance

Celltech is committed to high standards of corporate governance. Throughout the year to 31 December 2003, the Group has complied with the provisions of Section 1 of the Combined Code on Corporate Governance issued in 1998 by the Hampel Committee and embodied in the Listing Rules of the UK Listing Authority other than with respect to the notice period in Dr Fellner's service contract which expired in April when his role changed from that of Chief Executive to Non-Executive Chairman.

Following the publication of the Higgs Review on Non-Executive directors and the Smith Report on Audit Committees, in July 2003 the Financial Reporting Council published a new Combined Code on Corporate Governance which replaces the existing version of the Combined Code and comes into effect for financial years beginning on or after 1 November 2003 (the Revised Code). The Board has implemented a review of its policies in the area of corporate governance and has already implemented a number of changes to Board procedures, including its induction programme for new Directors, and the structure and terms of reference of the various Committees. The review is ongoing and the Board will take whatever steps it considers appropriate to implement the Revised Code. It is intended that the Company's Corporate Governance Report for the financial year ended 31 December 2004 will refer to the Company's compliance with the Revised Code and include any additional disclosures it will be required to make.

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 receives regular reports from management at Board meetings.

The Board regularly reviews the effectiveness of the Group's system of internal control on key operational and financial matters. The Board considered the need for an internal audit function and concluded that in view of the control procedures in place in the Company, there was no requirement for a separate internal audit function during 2003. However, the Board has further considered this matter and with effect from January 2004, Ernst & Young have been appointed to provide an internal audit function. In connection with this year's Annual Report the Audit Committee appointed Ernst & Young to carry out an internal risk assessment review.

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 suppliers of services and materials, Contract Research Organisations (CROs) and Contract Manufacturing Organisations (CMOs).

The quality 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 provides 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 that high standards of performance are maintained.
- Budgets and long-term forecasts are prepared that 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 the auditors and, in future, Ernst & Young acting as internal auditors, 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 continues to recognise the importance of corporate governance in building a sustainable business. Through our Corporate Social Responsibility (CSR) approach, defined by our CSR Committee, Celltech is committed to integrating Social, Ethical and Health, Safety and Environment (HS&E) considerations into daily operations, and to engaging with stakeholders to ensure these considerations reflect current best practice.

Celltech is focused on 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 2003 Celltech published its first CSR report, available at www.celltechgroup.com or in hard copy from the Investor Relations department. This report, based on Celltech's CSR Policy, aims to demonstrate the integration of sustainable business considerations into Celltech's operations.

The CSR Policy operates alongside Celltech's management systems and ensures that:

- as a minimum, the Group meets existing standards and legislation;
- health, safety and environment issues remain critical to business operations;
- ethical issues are dealt with in accordance with the Company's 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 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 Board and the CSR Committee take regular account of the significance of Social, Ethical and HS&E matters;
- the Board and the CSR Committee identify and assess the significant risks to the Company's short and long-term value arising from social, environmental and ethical matters, and that adequate information is received to make that assessment;

The Group has nominated a CSR Committee, with Board representation from Peter Allen, Deputy CEO and Chief Financial Officer, Dr Melanie Lee, R&D Director and Ingelise Saunders, Global Commercial Director. The CSR Committee, working with the CSR team, reviews social, environmental and ethical matters and updates the Board as appropriate.

Corporate Governance
continued

Celltech management has, within the generally accepted principles of sustainability, identified three key areas that present significant Social, Ethical and HS&E risks and opportunities that may significantly affect Celltech's short and long-term value:

- Social – focusing on people development, and managing the business in an ethical fashion in line with Company policies.
- Ethical – investing in research and development activities to ensure a sustainable, principled economic model and fair returns for shareholders.
- HS&E – ensuring the health and welfare of people, minimising utility usage and waste and working towards a statement of intent for emissions.

Data used to monitor Celltech's progress against its CSR objectives is collated using existing management systems as part of general business practice. More details on the structure of these systems can be found in Celltech's CSR report.

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

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.

Celltech's specific areas of CSR focus for this year are summarised below.

Social

Drug development, manufacturing and marketing are highly regulated areas and must be managed to the highest ethical standards. Celltech's ethos is to create an open and lively culture in which employees follow ethical principles and share information to enable everyone to understand their part in achieving Celltech's objectives.

Developing talent

The welfare and development of employees remain a priority and Celltech continues to focus on developing talent, for example:

- Each Celltech site maintains a version of the Group Employee Manual, modified to reflect local employment requirements, designed with the intention of attracting, recruiting, developing and retaining key people.
- Over the last year, Celltech has reviewed role descriptions with a view to standardising the way similar roles are performed across the Group.
- Training remains a key area of focus for Celltech, and training courses, coaching and team alignment sessions provide opportunities to develop skills.
- A sales force effectiveness initiative has been launched with the establishment of a global team dedicated to ensuring Celltech has the right structures and processes for the retention and reward of sales personnel and recognition of the sales forces' efforts.

Communication

A continuous two-way dialogue between employees and management is critical to business operations:

- Each site holds regular site briefings, highlighting business-critical activities and providing an opportunity to discuss issues with senior management.
- Company news, including CSR news and information, is updated regularly on the Celltech intranet and included in the quarterly Group in-house magazine.
- An increasing number of employees have access to the intranet. Where employees do not have immediate access, company news is communicated through memos and videos.

Consultation and feedback

Feedback is critical in developing two-way dialogue. Employee feedback is encouraged via line management and staff councils.

- An Employee Survey is being introduced across Celltech following a pilot survey last September with the commercial organisation.
- As a result of the survey each commercial department is responding to the results through the implementation of a local action plan.

Ethical

Celltech's business activities focus on the discovery and development of treatments for serious disease areas and the provision of fair returns for shareholders. Key activities include:

- A Code of Ethics has been developed and is available on the Company's web site. This Code, along with the Company's internal Code of Conduct sets out the way business should be conducted.
- Ongoing dialogue with key stakeholders including shareholders, business partners and suppliers;
- External risk identification audits and continuous internal risk management programmes;
- Investment in new technology and IT security upgrades;
- Maintenance of a robust, flexible patenting strategy to protect and exploit the Company's intellectual property; and
- Management of the Group's resources in a prudent fashion to ensure adequate investment in R&D and commercialisation activities.

Health, Safety and Environment (HS&E)

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

Celltech has an HS&E Steering Committee, which comprises heads of key functions, and the two Directors responsible for HS&E, Dr Melanie Lee, Celltech's R&D Director, and Ingelise Saunders, Global Commercial Director.

Recent key initiatives are described below.

- Celltech has reviewed and updated its HS&E strategy to take account of changes in the internal and external environment, which are expected over the next five years. Celltech plans to publish extracts from this strategy in the next update of the CSR Report.
- Auditing plays a key part in the Company's assurance programme. Celltech has carried out an evaluation of the timing and reporting of internal audits and has published guidance on its intranet. A status report is in preparation and will be submitted to the Board when complete. Celltech has also developed protocols for carrying out audits of third party manufacturers.
- Celltech has improved its measures for dealing with information on handling and shipping hazardous substances, both for internal and external customers.
- R&D and manufacturing sites are working on a programme to develop their environmental aspects and impacts registers.
- Two major group-wide training packages have been reviewed and refreshed. Health and safety training has been provided for our sales representatives, as well as training for managers to assist them in ensuring a safer environment for employees.
- Celltech continues to develop its programme for managing occupational road risk for employees who drive in the course of their work.
- Indicators of HS&E performance have been collected for 2003 and these figures will be published during the year.

Monitoring and Evaluation

Continuous evaluation of Celltech's CSR activity is critical to progressing the programme and identifying areas for improvement. Measurement tools are being implemented, including regular audits of the social and ethical elements of the programme in addition to the established HS&E monitoring and auditing procedures. An internal audit into key Social, Ethical and HS&E areas of Celltech's CSR reporting will be carried out in 2004.

More information about the CSR programme and performance can be found on www.celltechgroup.com.

As mentioned in the Remuneration Report, the Remuneration Committee of the Board has appointed Deloitte & Touche to advise the Committee on its review of Group remuneration policy during 2004. As part of this review, measurement of performance against Social, Ethical and HS&E matters will be considered.

Board of Directors

As at 31 December 2003 the Board of Directors comprised four Executive Directors and eight Non-Executive Directors, including a Non-Executive Chairman. Mr Hugh Collum and Mr John Baker were senior independent Non-Executive Directors until July and May 2003 respectively when they retired. Mr Philip Rogerson was designated the senior independent Non-Executive Director following the retirement of Mr Collum in July. For the purposes of the Combined Code, Sir Tom Blundell, Mr Newmarch, Professor Edwards, Dr Jaffe, Dr Read, Mr Rogerson and Mr Cadbury are considered by the Board to be independent Non-Executive Directors. Dr Read and Dr Fellner both serve on the Board of Vernalis plc, as a result of the merger of Vernalis Group plc with British Biotech plc. Dr Fellner was Chairman of British Biotech and Dr Read was a Director of Vernalis when the two companies merged in September 2003. The biographical details of the Board members are set out on pages 24 and 25. Information on the Directors re-election/election procedure can be found in the Remuneration Report on page 32. Details of the Directors who will be seeking election this year can be found in the Circular accompanying the Report and Accounts. 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. The Board has adopted a procedure whereby Directors may, in pursuit of their duties, take independent legal advice on any matter at the Company's expense. Directors also have access to the advice and services of the Company Secretary.

There are currently eight scheduled Board meetings each year and other meetings are held as necessary. In advance of Board meetings the Directors are furnished with the appropriate information on the current status of the Company's business.

In accordance with the requirements of the Revised Code the Board intends to implement during the forthcoming year a formal system of evaluation of its performance and that of its Committees and Directors.

Chairman

Dr Fellner became Non-Executive Chairman in April 2003 and was re-elected by shareholders at the AGM in May 2003.

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. The rationale for Dr Fellner's appointment as Chairman was reviewed with the Association of British Insurers whilst reviewing Dr Ando's appointment. In view of the Higgs Report (and the Revised Code) the Non-Executive Directors (other than Mr Jackson who was 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 was recruited in full knowledge of the plans for the appointment of Dr Fellner as Chairman. This had been a key influencing factor in the recruitment to the position of Chief Executive of a senior highly qualified and experienced executive in the pharmaceutical industry.

Board Committees

The Board has Audit, Remuneration and Nomination Committees. In addition the Board established a Science and Technology Committee during the year.

In response to the recommendations made in the Higgs Report and the subsequent requirements introduced in the Revised Code the composition of the various Committees of the Board were reviewed during 2003.

The full terms of reference of all the Committees are published on the Company's website.

Audit Committee

The Audit Committee has operated throughout the year and its members at the beginning of the year were Mr Newmarch, Professor Edwards and Dr Read. In addition, in May 2003 Mr Rogerson was appointed a member of the Committee. It is chaired by Mr Newmarch. The Committee met three times during the year and reported its conclusions to the full Board. 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, the monitoring of the effectiveness of internal control systems and business risk analysis. The external Auditor attends its meetings and has the opportunity for private discussions with the Committee. The Board notes the publication in January 2003 of the Smith Report and continues to give full consideration to this Report. The members of the Committee who held office at the year-end and at the date of this report are all independent Non-Executive Directors.

The terms of reference of the Audit Committee include the following responsibilities:

- To review the annual financial statements and interim and preliminary announcements before their submission to the Board for approval.
- To determine whether the accounting policies of the Company are in accordance with the law and accounting standards.
- To review the scope and planning of the external audit.
- To review from time to time the cost effectiveness of the audit and the independence and objectivity of the external auditor.
- To monitor the fees paid to the auditor and where the auditor supplies a substantial volume of non-audit services to the Company, to keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.
- To review the findings of the external auditor and the findings of internal investigations and management's response.
- To review management procedures to monitor the effectiveness of the systems of accounting and internal control.
- To monitor and assess the need for an internal audit function.

- To make recommendations to the Board concerning the appointment and remuneration of the external auditor.
- To review any profit forecasts or working capital statements published in any bid document or listing particulars.
- To review the performance of the external auditor.

Remuneration Committee
The Remuneration Committee has operated throughout the year. During the year Mr Jackson and Mr Collum retired and Mr Cadbury, Dr Read and Mr Rogerson were appointed to the Committee. Its current members are Dr Read, Mr Rogerson, Mr Cadbury and Dr Jaffe. The Committee, which is chaired by Dr Read, 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.

The terms of reference of the Remuneration Committee include the following responsibilities:

- To ensure that senior remuneration policies and practice facilitate the employment and motivation of top quality personnel.
- To receive evidence on internal and external trends in remuneration, options and other benefits.
- To commission necessary surveys aimed at establishing market position or exploring particular aspects of remuneration.
- To seek such information and advice as may be required in order to fulfil its obligations.
- To monitor Directors' benefits, including pensions, consider any significant developments and make recommendations as appropriate.
- Generally to ensure that senior remuneration administration operates on a best practice basis.

Nomination Committee
A Nomination Committee meets as appropriate. During the year Mr Jackson, Mr Collum and Mr Baker retired from the Board and Mr Cadbury, Sir Tom Blundell, Professor Edwards and Dr Ando were appointed to the Committee. Current members are Mr Cadbury, Sir Tom Blundell, Prof Edwards, Dr Fellner and Dr Ando. The Committee, which is chaired by Mr Cadbury, met twice during the year. In recruiting for a new Chief Executive the Committee appointed the external consultants Spencer Stewart.

The terms of reference of the Nomination Committee include the following responsibilities:

- Make recommendations to the Board on its structure, size, composition and balance.
- Be responsible for nominating candidates for the approval of the Board to fill vacancies on the Board of Directors, for both Executive and Non-Executive Directors.
- Give full consideration to succession planning in the course of its work.
- Have the power to employ the services of such advisers as it deems necessary to fulfil its responsibilities.

Science and Technology Committee
A Science and Technology Committee meets as appropriate. Sir Tom Blundell chairs the Committee and the other members are Dr Fellner, Dr Ando, Dr Lee, Professor Edwards and Dr Jaffe.

The terms of reference of the Science and Technology Committee include the following responsibilities:

The Committee is responsible for reviewing and making recommendations to the Board on the Company's R&D strategy.

In fulfilling this responsibility, the Committee shall:

- Review and approve annually the Company's R&D strategy for presentation to and recommendation for adoption by the Board.
- Review annually key strategic objectives for R&D and consider any major variances from previous reviews.
- Review major programmes within R&D and monitor their progress.

- Receive and evaluate annually a report from the Chairman of Celltech's Science Advisory Board.
- Assess senior management resources and capabilities for R&D and advise on succession planning.
- Consider proposals for accessing external advice and support where necessary to strengthen or complement in-house R&D skills.
- Review overall product flow.

Relations with shareholders

Communications with shareholders are given a high priority. The Chairman's and Chief Executive Officer's Statements and the Operational and Financial Reviews on pages 1 to 23 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 27 May 2004 can be found in the Circular, which accompanies 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 financial statements for each financial year which give a true and fair view of the statement of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those financial statements, 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 financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and 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 Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements on pages 47 to 80. 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 45, 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 40 to 44 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

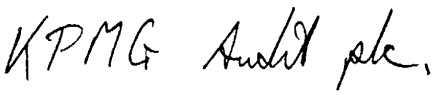
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also 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 2003 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
15 March 2004

Consolidated Profit and Loss Account

for the year ended 31 December 2003

	Notes	2003 Pre exceptional items and goodwill £m	2003 Exceptional items and goodwill £m	2003 Total £m	2002 Pre exceptional items and goodwill £m	2002 Exceptional items and goodwill £m	2002 Total £m
Turnover	2	**353.3**	**–**	**353.3**	329.6	–	329.6
Cost of sales		**(101.5)**	**–**	**(101.5)**	(94.7)	–	(94.7)
Gross profit		**251.8**	**–**	**251.8**	234.9	–	234.9
Investment in research and development		**(106.1)**	**–**	**(106.1)**	(95.7)	–	(95.7)
Selling, marketing and distribution expenses		**(67.4)**	**–**	**(67.4)**	(71.5)	–	(71.5)
Corporate and general administration expenses excluding exceptional items and goodwill charges		**(31.3)**	**–**	**(31.3)**	(26.8)	–	(26.8)
Exceptional items	5	**–**	**(18.9)**	**(18.9)**	–	–	–
Goodwill amortisation		**–**	**(94.2)**	**(94.2)**	–	(93.7)	(93.7)
Administration expenses	4	**(31.3)**	**(113.1)**	**(144.4)**	(26.8)	(93.7)	(120.5)
Operating profit/(loss) before other income		**47.0**	**(113.1)**	**(66.1)**	40.9	(93.7)	(52.8)
Other income	3	**2.5**	**–**	**2.5**	8.1	–	8.1
Operating profit/(loss)	4	**49.5**	**(113.1)**	**(63.6)**	49.0	(93.7)	(44.7)
Losses on the termination of operations	5	**–**	**(14.6)**	**(14.6)**	–	–	–
Provision against fixed asset investment	5	**–**	**(7.0)**	**(7.0)**	–	–	–
Profit/(loss) on ordinary activities before interest		**49.5**	**(134.7)**	**(85.2)**	49.0	(93.7)	(44.7)
Net interest receivable	6	**2.7**	**–**	**2.7**	1.4	–	1.4
Profit/(loss) on ordinary activities before taxation		**52.2**	**(134.7)**	**(82.5)**	50.4	(93.7)	(43.3)
Tax on profit/(loss) on ordinary activities	8	**(7.8)**	**36.4**	**28.6**	(7.6)	5.1	(2.5)
Profit/(loss) on ordinary activities after taxation	24	**44.4**	**(98.3)**	**(53.9)**	42.8	(88.6)	(45.8)
Preference share dividend	24	**(0.1)**	**–**	**(0.1)**	(0.2)	–	(0.2)
Transfer to/(from) profit and loss reserve		**44.3**	**(98.3)**	**(54.0)**	42.6	(88.6)	(46.0)
Basic earnings/(loss) per share (pence)	9	**16.0**	**n/a**	**(19.5)**	15.5	n/a	(16.7)
Diluted earnings/(loss) per share (pence)	9	**16.0**	**n/a**	**(19.5)**	15.4	n/a	(16.7)

The results presented above arise from continuing operations. Oxford GlycoSciences (OGS) has been consolidated as from 14 April 2003. Included in the operating result within the investment in research and development charge of £106.1 million is £3.9 million of costs in respect of continuing projects acquired with OGS. No turnover has been consolidated in respect of OGS.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2003

	2003 £m	2002 £m
Consolidated loss for the year	**(53.9)**	(45.8)
Currency translation difference on foreign currency net investments and net borrowings	**(4.9)**	(11.0)
Total recognised losses for the year	**(58.8)**	(56.8)

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2003

	2003 £m	2002 £m
Shareholders' funds at start of year	**564.4**	619.2
Total recognised losses for the year	**(58.8)**	(56.8)
Ordinary share capital issued (net of expenses)	**6.2**	2.0
Preference shares redeemed	**(5.9)**	–
Net movement in shareholders' funds	**(58.5)**	(54.8)
Shareholders' funds at end of year	**505.9**	564.4

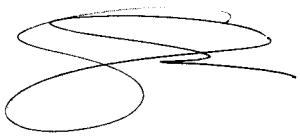
Consolidated Balance Sheet

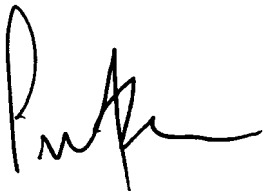
as at 31 December 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Intangible assets	11	**351.4**	439.9
Tangible assets	12	**87.3**	95.2
Investments	13	**2.8**	40.2
		441.5	575.3
Current assets			
Stock	14	**36.4**	43.4
Debtors	15	**77.5**	76.6
Equity investments	16	**0.8**	–
Cash and liquid resources	17	**155.0**	105.1
		269.7	225.1
Creditors: amounts falling due within one year	18	**(149.9)**	(160.1)
Net current assets		**119.8**	65.0
Total assets less current liabilities		**561.3**	640.3
Creditors: amounts falling due after more than one year	19	**(5.7)**	(12.7)
Provisions for liabilities and charges	20	**(49.7)**	(63.2)
Net assets		**505.9**	564.4
Capital and reserves			
Called up share capital		**138.8**	141.3
Share premium account		**88.5**	83.3
Other reserves		**619.1**	621.4
Profit and loss account		**(340.5)**	(281.6)
Shareholders' funds	24	**505.9**	564.4

An analysis of shareholders' funds between equity and non-equity interests is given in note 24.

Approved by the Board on 15 March 2004 and signed on its behalf by





Dr Göran Ando
Director

Peter Allen
Director

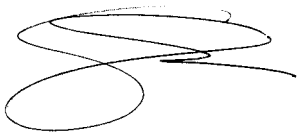
Company Balance Sheet

as at 31 December 2003

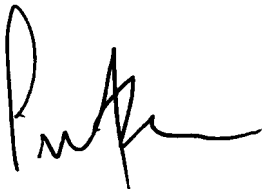
	Notes	2003 £m	2002 £m
Fixed assets			
Investments	13	**311.5**	292.9
Current assets			
Cash	17	**8.9**	22.3
Total assets less current liabilities		**320.4**	315.2
Net assets		**320.4**	315.2
Capital and reserves			
Called up share capital		**138.8**	141.3
Share premium account		**88.5**	83.3
Other reserves		**–**	2.4
Profit and loss account		**93.1**	88.2
Shareholders' funds	24	**320.4**	315.2

An analysis of shareholders' funds between equity and non-equity interests is given in note 24.

Approved by the Board on 15 March 2004 and signed on its behalf by



Dr Göran Ando
Director



Peter Allen
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	29	**53.9**	49.4
Returns on investments and servicing of finance			
Interest received		**7.5**	2.8
Interest paid		**(2.6)**	(2.5)
Interest paid on finance leases		**(0.1)**	(0.1)
Net cash inflow from returns on investment and servicing of finance		**4.8**	0.2
Taxation			
Taxation paid		**(7.9)**	(4.4)
Taxation refunded		**5.1**	0.8
Taxation outflow		**(2.8)**	(3.6)
Capital expenditure and financial investment			
Payments made to acquire tangible fixed assets		**(15.0)**	(11.8)
Payments made to acquire intangible fixed assets including deferred consideration		**(13.2)**	(16.1)
Proceeds from disposal of equity investments		**–**	1.1
Proceeds from repayment of PowderJect convertible loan notes		**31.0**	–
Proceeds from sale of fixed assets		**0.6**	0.7
Net cash inflow/(outflow) from capital expenditure and financial investment		**3.4**	(26.1)
Acquisitions and disposals of businesses			
Acquisition of OGS, less cash acquired*	22	**(79.0)**	–
Cash funding in respect of businesses held for resale		**(0.9)**	–
Proceeds from termination of Confirmant joint venture	23	**6.4**	–
Acquisition of own shares		**(1.4)**	–
Net cash outflow from disposals and acquisitions of businesses		**(74.9)**	–
Net cash (outflow)/inflow before management of liquid resources and financing		**(15.6)**	19.9
Management of liquid resources		**7.0**	30.1
Financing			
Receipts from issuing shares		**0.3**	2.0
Capital element of finance lease rental payments		**(0.7)**	(1.1)
Repayment of senior loan notes		**(28.5)**	–
Net cash (outflow)/inflow from financing		**(28.9)**	0.9
(Decrease)/increase in cash in the period		**(37.5)**	50.9

* The total cost of the OGS acquisition including transaction costs was £106.1 million. OGS cash and liquid resources inherited with the acquisition were £126.6 million of which £27.1 million was cash. This results in the net £79.0 million cash outflow reported above (£106.1 million less £27.1 million). The impact of the OGS acquisition on Group cash flows is set out in more detail in note 22.

Reconciliation of Net Cash Flow to Movement in Net Funds

for the year ended 31 December 2003

	Notes	2003 £m	2002 £m
(Decrease)/increase in cash		**(37.5)**	50.9
Acquisition of OGS liquid resources		**99.5**	–
Management of liquid resources		**(7.0)**	(30.1)
Total increase in cash and liquid resources		**55.0**	20.8
Decrease in long-term debt and finance leases		**29.2**	1.1
Change in net funds arising from cash flow		**84.2**	21.9
Exchange differences		**(2.4)**	(2.8)
Movement in net funds in the period		**81.8**	19.1
Net funds at beginning of period	29	**72.2**	53.1
Net funds at 31 December	29	**154.0**	72.2

Notes to the Financial Statements

for the year ended 31 December 2003

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 unless they are held for immediate disposal.

Income recognition

Revenue from product sales is recorded as turnover at the invoiced amount (excluding sales and value added taxes) less estimated provisions for product returns, wholesale chargebacks and rebates given to Medicaid, managed care and other customers. Cash discounts for prompt payment are also deducted from sales on an accrual basis. Revenue is recognised when title passes, which is usually either on shipment or on receipt of goods by the customer, depending on local trading terms.

Royalties are recorded as turnover and recognised on a time accrual basis unless there remains uncertainty over their collection, in which case recognition is deferred until such uncertainties are removed, which is typically on cash receipt.

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 that 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 considered 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 termination of the trial. 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 for the year 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. Monetary amounts denominated in a foreign currency are translated at closing rates at the year end.

Preference share dividends
Accumulated unpaid preference share dividends have been accounted for as a reserves accrual. During the year ended 31 December 2003 the preference shares in existence were redeemed (see note 24).

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 except as otherwise required by FRS 19 on a non-discounted basis. 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 absolutely 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	2003 £m	2002 £m
USA	**243.7**	231.8
UK	**51.1**	41.9
Rest of Europe	**51.1**	48.5
Rest of world	**7.4**	7.4
Total	**353.3**	329.6

Turnover comprises £259.2 million (2002: £252.9 million) of product sales and £94.1 million (2002: £76.7 million) of royalty income.

Royalty income includes £10.5 million of forward hedging exchange gains. In the year ended 31 December 2002 foreign exchange gains of £3.7 million are included in cost of sales. The Group considers that the revised 2003 presentation reflects more appropriately the nature of the hedging transaction.

(ii) Segmental analysis by country of origin

	Turnover		Operating profit/(loss) before goodwill and exceptional items		Loss on ordinary activities before interest		Net assets	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
USA	**168.4**	162.5	**52.3**	41.5	**(17.4)**	(18.1)	**234.1**	313.2
UK	**132.0**	116.2	**(11.7)**	(3.2)	**(57.1)**	(24.9)	**216.8**	186.0
Rest of Europe	**52.9**	50.9	**8.9**	10.7	**(10.7)**	(1.7)	**55.0**	65.2
Total	**353.3**	329.6	**49.5**	49.0	**(85.2)**	(44.7)	**505.9**	564.4

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

	2003 £m	2002 £m
Pfizer (CDP870 milestone)	**–**	6.4
Other milestone income	**1.5**	1.7
Disposal of product licences	**0.5**	–
Other collaboration income	**0.5**	–
Total	**2.5**	8.1

During the year Pfizer gave notice of their intention to terminate their participation in the development of CDP870 from February 2004, consequently no further income will be received from Pfizer with regard to this collaboration.

An amount of £4.8 million (2002: £5.4 million) is held on the balance sheet within accruals and deferred income, in respect of Pfizer's upfront contribution to the development of CDP870 in the Crohn's disease indication. This amount has been deferred and is being taken to income over the remaining development period, in order to match the revenue with the associated cost. Research and development expenditure in 2003 is shown net of the £0.6 million (2002: £3.7 million) of the upfront contribution utilised during the year.

4. Operating loss

The operating loss is stated after charging:

		2003 £m	2002 £m
Depreciation	– owned assets	**13.5**	12.8
	– assets held under finance leases	**0.4**	0.5
Amortisation	– intangibles	**3.2**	1.0
Operating lease rentals	– plant and machinery	**1.1**	1.4
	– other	**6.3**	6.4
Administrative expenses	– corporate and general administrative	**31.3**	26.8
	– exceptional items	**18.9**	–
	– goodwill	**94.2**	93.7

In 2003 the operating loss is also stated after the following material items discussed elsewhere in this report: £10.5 million (2002: £3.7 million) of exchange gains on hedging instruments (note 2) and £3.0 million (2002: £2.9 million) establishment of new provisions for self insurance (note 20). In addition in 2002, there was a provision release of £3.1 million (note 20) and a £0.9 million loss on the disposal of equity investments (note 16).

Fees paid to auditors

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

	2003 £m	2002 £m
Audit services	**0.4**	0.3
Further assurance services	**0.3**	0.1
Tax services – compliance	**0.2**	0.2
Tax services – advisory	**0.1**	0.2
Total	**1.0**	0.8

The Company audit fee amounted to £25,000 (2002: £25,000). There are no fees charged to the Company for other services.

5. Exceptional items

	2003 £m	2002 £m
European sales force restructuring	**9.0**	–
Write-off CDP571 stocks	**7.5**	–
Development restructuring	**1.5**	–
Thiemann asset write-down	**0.9**	–
Operating exceptional charge	**18.9**	–
Loss on the termination of operations	**14.6**	–
Provision against fixed asset investment	**7.0**	–
Exceptional items before taxation	**40.5**	–
Exceptional tax items (note 8)	**(31.7)**	–
Exceptional items	**8.8**	–

Of the total exceptional charge of £40.5 million before taxation, £20.0 million will result in a cash outflow for the Group and £20.5 million represents asset write-downs. The non-cash items are the write-off of the investment in Neogenesis and CDP571 stocks together totalling £14.5 million, tangible fixed asset impairments of £4.5 million (see note 12) and £1.5 million of inventory write-downs at the Santa Ana manufacturing facility.

The total cash expenditure on exceptional items in the year ended 31 December 2003 was £8.9 million (£8.7 million of items booked in the current year and £0.2 million of prior year items), leaving a balance of £11.3 million to be spent primarily during 2004. The total cash cost of £20.0 million includes £14.5 million of redundancy and related costs.

Operating exceptional items

European sales force restructuring

During the year the UK, French, German and Spanish sales forces have been restructured from primary care to specialist focus. The majority of the costs in all locations relate to provisions for redundancy and related expenditure. As at 31 December, 2003, £4.8 million of this provision remained to be utilised.

5. Exceptional items continued

Write-off of CDP571 stocks

Following a review of CDP571 undertaken during 2003, it was determined that the commercial opportunities for this product, including its use on a named patient basis, would not be actively pursued. Consequently, the stock of CDP571 held as at 31 December 2002 (£7.5 million) has been written down to £nil.

Development restructuring

These costs relate primarily to the Group's announced reorganisation of the development functions of the Group based in Slough and Cambridge. The charge relates to provision for redundancy costs and external consulting costs. As at 31 December 2003, £0.9 million of the total provision remained to be utilised.

Thiemann asset write-down

With the acquisition of Thiemann in 2001, the Group inherited a freehold building in Waltrop in north-east Germany. During 2002, Celltech's German operations relocated to new leased offices in the Essen area of Germany. The charge in 2003 reflects a write-down to net realisable value of the Waltrop site.

Loss on termination of operations

The table below sets out the loss on termination of operations:

	£m
Closure of Seattle research operations	**5.6**
Closure of Santa Ana manufacturing facility	**4.5**
OGS closure costs	**4.5**
Total	**14.6**

Closure of Seattle research operation

Following a review of Celltech's long-term research and development needs, the decision was made to close its Seattle research facility. This closure has resulted in an exceptional charge of £5.6 million, reflecting provision for redundancy costs, short-term lease commitments and writing down the remaining book value of the facility to £nil. As at 31 December 2003, £3.4 million of the provision remained to be utilised.

Closure of Santa Ana manufacturing facility

On 3 June 2003 Celltech announced the closure of its manufacturing facility in Santa Ana, California. The site produced various methylphenidate products. Production associated with the tableting and packaging of these products has been transferred to the Group's facility in Rochester, New York. The provision for closure costs relates primarily to redundancies, lease commitments and asset write-downs. As at 31 December 2003, £0.5 million of the provision remained to be utilised.

OGS closure costs

Following Celltech's acquisition of OGS, a substantial restructuring of the operations was undertaken. The charge relates primarily to provision for redundancy costs for staff and development spend on projects to be discontinued. As at 31 December 2003 £1.7 million of the provision remained to be utilised.

Provision against fixed asset investment

Neogenesis investment write-off

In view of the current environment for biotechnology IPOs, the Directors have determined that the estimated net realisable value of Celltech's investment in Neogenesis in the event of a trade sale is nil, leading to a write-down of £7.0 million (see note 13).

6. Net interest receivable

	2003 £m	2002 £m
Bank interest receivable	**3.5**	1.4
Interest on PowderJect convertible loan note receivable	**1.8**	2.2
Tillotts loan note	**0.1**	0.1
	5.4	3.7
Interest payable on $50m senior debt	**(1.9)**	(2.2)
Interest payable on revolving credit facility	**(0.6)**	–
Interest paid on finance leases	**(0.1)**	(0.1)
Other	**(0.1)**	–
	(2.7)	(2.3)
Net interest receivable	**2.7**	1.4

7. Staff costs

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

	2003 £m	2002 £m
Salaries	**81.9**	79.4
Social security costs	**8.0**	7.4
Other costs including pensions	**9.4**	10.8
Total	**99.3**	97.6

The above costs exclude redundancy and related charges made during the year of £14.5 million (see note 5).

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

	2003 Number	2002 Number
Production	**556**	569
Sales and distribution	**560**	679
General and administration	**162**	176
Research and technical	**661**	613
Total	**1,939**	2,037

(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

	2003 £m	2002 £m
UK corporation tax at 30% (2002: 30%)	**1.3**	0.7
Utilisation of tax losses	**(1.3)**	(0.7)
UK corporation tax	**–**	–
Overseas – federal and state tax	**7.6**	4.7
– deferred tax	**(31.5)**	2.9
Overseas taxation	**(23.9)**	7.6
Deferred tax credit on goodwill	**(4.7)**	(5.1)
Taxation charge	**(28.6)**	2.5

The table below reconciles the actual current tax charge to the expected tax rate, computed by applying the UK tax rate of 30% (2002: 30%) to the loss on ordinary activities before taxation:

	2003 £m	2002 £m
Expected tax credit at UK corporation tax rate	**(24.8)**	(13.0)
Permanent difference on goodwill	**24.5**	23.3
Restructuring costs (see below)	**9.5**	(4.7)
Difference in local tax rates	**(0.1)**	0.3
Utilisation of losses	**–**	(1.3)
Other	**(1.5)**	0.1
Current taxation charge	**7.6**	4.7

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

	2003 £m	2002 £m
Accelerated capital allowances	**2.2**	3.6
Goodwill deferred tax asset	**(4.7)**	–
Other non-current tax liabilities	**22.8**	53.7
Deferred taxation provision	**20.3**	57.3

8. Taxation continued

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

There are taxation losses of approximately £289 million (2002: £291 million) which have not been recognised.

Exceptional and goodwill items

	2003 £m
Tax credit on exceptional items	**(3.2)**
Release of other non-current tax liabilities	**(28.5)**
Total exceptional tax items	**(31.7)**
FRS 19 deferred tax credit on goodwill	**(4.7)**
Exceptional tax and goodwill items	**(36.4)**

Tax credits on exceptional items arising during the year are primarily in respect of restructuring charges outside the UK. Where restructuring charges have led to an increase in taxation losses, the benefit of such losses have not been recognised. In addition, as a result of the Group resolving a number of outstanding tax issues with various tax authorities during the course of the year, an amount of £28.5 million held primarily by Medeva at January 2000 has been released as an exceptional credit.

FRS 19 Deferred Tax requires that the Group recognises deferred tax assets in respect of the timing difference associated with goodwill. This has resulted in the Group recognising a deferred tax asset of £4.7 million in the year. It is anticipated that additional deferred tax assets will be recognised in subsequent years before reversing in accordance with the nature of the timing difference.

9. Earnings per share

The basic loss per share is based upon a loss of £54.0 million (2002: loss of £46.0 million) after deduction of preference share dividends of £0.1 million (2002: £0.2 million) and a weighted average number of shares in issue of 276.4 million (2002: 275.4 million).

The earnings per share before goodwill and exceptional items is provided based on a profit of £44.3 million (2002: profit of £42.6 million). This is reconciled to the loss of £54.0 million (2002: loss of £46.0 million) as set out below:

	2003 £m	2002 £m
Attributable loss	**(54.0)**	(46.0)
Goodwill amortisation (note 11)	**94.2**	93.7
Exceptional items (note 5)	**40.5**	–
Tax on goodwill and exceptional tax items (note 8)	**(36.4)**	(5.1)
Adjusted profit	**44.3**	42.6

The Directors believe that earnings per share based on the adjusted profit provides useful additional information for shareholders.

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:

	2003 Number m	2002 Number m
Basic weighted average number of shares	**276.4**	275.4
Share options	**1.1**	0.6
Convertible preference shares	**0.5**	1.9
Diluted number of shares	**278.0**	277.9

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 2003 and 2002 earnings per share before goodwill and exceptional items and the preference share dividend have 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 in the financial statements of the Company was £4.9 million (2002: profit £6.8 million).

11. Intangible fixed assets

	Goodwill £m	Intangible assets £m	Group £m
Cost			
At 1 January 2003	1,011.7	48.1	1,059.8
Additions	–	1.8	1.8
Acquisition of OGS	8.1	–	8.1
Exchange	–	(1.0)	(1.0)
At 31 December 2003	**1,019.8**	**48.9**	**1,068.7**
Provisions for amortisation			
At 1 January 2003	618.9	1.0	619.9
Amortisation charged in the year	94.2	3.2	97.4
At 31 December 2003	**713.1**	**4.2**	**717.3**
Net book value			
At 31 December 2003	**306.7**	**44.7**	**351.4**
At 31 December 2002	392.8	47.1	439.9

The goodwill amortisation charge reflects a full year of ownership of Medeva (£88.3 million), Cistron (£0.7 million) and Thiemann (£4.7 million) and an eight-month charge in respect of OGS of (£0.5 million) (see note 22). Medeva and Thiemann goodwill is being amortised over seven years. Cistron and OGS goodwill is being amortised over 10 years.

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 technology will be subject to an annual impairment review.

In July 2002, the Group announced that it had entered into arrangements with Pharmacia (now part of Pfizer) 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 2003 amounted to £11.7 million. The Dipentum asset is being amortised over 15 years, which is based on the Directors' estimate of the products 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 2003 are £17.1 million (2002: £4.6 million – part year only).

12. Tangible fixed assets

	Land and buildings		Plant and Machinery		
	Freehold £m	Long leasehold £m	Owned £m	Leased £m	Group Total £m
Cost					
At 1 January 2003	35.9	26.3	105.2	1.5	168.9
Additions	1.1	6.1	9.0	–	16.2
Disposals	–	–	(3.6)	(0.5)	(4.1)
Transfers	(4.4)	–	4.4	–	–
Exchange	(3.0)	(0.3)	(5.2)	(0.1)	(8.6)
At 31 December 2003	**29.6**	**32.1**	**109.8**	**0.9**	**172.4**
Depreciation					
At 1 January 2003	5.7	8.3	58.5	1.2	73.7
Provided during the period	1.0	1.3	11.5	0.1	13.9
Exceptional charge – Germany	0.9	–	–	–	0.9
Exceptional charge – Santa Ana	–	0.8	0.6	–	1.4
Exceptional charge – Seattle	–	0.4	1.8	–	2.2
Disposals	–	–	(3.3)	(0.3)	(3.6)
Exchange	(0.5)	(0.1)	(2.7)	(0.1)	(3.4)
At 31 December 2003	**7.1**	**10.7**	**66.4**	**0.9**	**85.1**
Net book value					
At 31 December 2003	**22.5**	**21.4**	**43.4**	**–**	**87.3**
At 31 December 2002	30.2	18.0	46.7	0.3	95.2

Included in the above are items held under finance leases with a net book value of £0.8 million (2002: £1.4 million).

The Group has assets in the course of construction or commissioning which are not depreciated of £9.6 million (2002: £18.4 million). Of the £9.6 million, £6.2 million are included within the long leasehold category and £3.4 million are within plant and machinery. The assets in the course of construction relate primarily to the expansion of the laboratory facilities at Slough and an upgrade to the manufacturing facility at Ashton.

Capital expenditure of £16.2 million in the year took place principally on the UK Research and Development facilities based in Slough (£7.7 million), the Ashton manufacturing site (£1.3 million) and the Rochester manufacturing site (£3.1 million). The freehold land and building addition of $2 million (£1.1 million) relates to the property acquired from Dr Ando in a related party transaction (note 25). Of the total expenditure of £16.2 million, £1.2 million was accrued at the year end relating to spend at Slough and Ashton.

Transfers relate to certain assets in the course of construction which were initially capitalised within freehold buildings, but which have been transferred to plant and machinery once commissioned.

On the disposal of fixed assets no material profit nor loss arose.

13. Investments

Long-term investments

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Loan notes	**1.9**	32.9	**–**	–
Investment in Neogenesis	**–**	7.0	**–**	–
Investment in OGS	**–**	–	**107.3**	–
Investments in subsidiary undertakings	**–**	–	**199.3**	199.3
Loans to subsidiary undertakings	**–**	–	**4.3**	93.6
Own shares held	**0.9**	0.3	**0.6**	–
At 31 December 2003	**2.8**	40.2	**311.5**	292.9

The Company investment in OGS of £107.3 million reflects a receipt of £1.2 million in cash in respect of share options received in OGS. The net figure of £106.1 million is the Group investment in OGS as shown in note 22.

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

13. Investments continued

Movements in investments during the year are as follows:

	Group £m	Company £m
At 1 January 2003	40.2	292.9
PowderJect loan notes repaid	(31.0)	–
Acquisition of own shares	1.4	1.4
Accrual for deferred bonus scheme	(0.8)	(0.8)
Write-down of Neogenesis investment	(7.0)	–
Movement in loans to subsidiary undertakings	–	(89.3)
Acquisition of OGS	–	107.3
At 31 December 2003	**2.8**	**311.5**

ESOPs

Employee share schemes set up as trusts hold Celltech Group plc ordinary shares to meet potential obligations under the schemes. Options are satisfied by the transfer of shares held in trust where newly issued shares are not used.

The Chiroscience 1994 Share Ownership Plan Trust holds 255,346 shares at 31 December 2003, of which 43,806 are to meet options vested but not yet exercised under the Chiroscience 1997 All Employee Share Option Scheme. It is the Group's intention that the shares over and above those required to meet the 43,806 granted and vested options will be used to meet obligations under other schemes in the future.

On 13 January 2003, the Celltech Group Employee Share Trust purchased 400,000 shares with funds gifted by Celltech Group plc. At the year end the Celltech Group Employee Share Trust holds 551,756 shares, of which 77,718 are to meet options granted under the Deferred Bonus Plan which have not been exercised but have vested, and 377,632 which have not yet vested.

The book value of all Company shares held in trust has been written down by £0.3 million, being the cost of shares over which options have vested. The cost of shares over which options have been granted but not vested at 31 December 2003 is accrued over the period to vesting. At the year end the accrual is £0.5 million. In total, the amount accrued or written down is £0.8 million, as shown in the table above.

The total market value of the Company's shares held in trust at 31 December 2003 is £3.1 million, based on the year-end price of £3.78.

Other investments

As at 31 December 2003, the Group has one remaining loan note due from Tillotts Pharma AG. 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 instalments dependent on the underlying adjusted profits of Tillotts Pharma AG, or at the latest by 31 December 2011.

In 2001, Celltech acquired a minority interest in Neogenesis for $10 million (£7.0 million). With the acquisition of OGS the Group inherited a further £4.3 million stake in Neogenesis. The total investment has been written down to £nil as at 31 December 2003, based on the expected realisable value. This is due to the shareholder structure which allows series A-D shareholders to recover their investment before series E investors. Both the initial Celltech holding and that inherited with OGS are part of the series E shares. Celltech and other series E shareholders would only recover their investment if the sales proceeds of Neogenesis exceeded $33.0 million. For the reasons set out in note 5, the Celltech Directors do not consider this likely. The existing Celltech holding has been charged as an exceptional item in the period, whereas the OGS holding was written off as a fair value adjustment to the acquired assets of that company.

13. Investments continued

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

Name of Company	Country of incorporation	Holding	Proportion held at 31 December 2003	Nature of Business
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%*	
Oxford GlycoSciences (UK) Limited	England	Ordinary shares	100%	
Confirmant 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
Oxford GlycoSciences Limited	England	Ordinary shares	100%*	
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 a range of branded specialty and generic pharmaceutical products
Celltech Pharmaceuticals, Inc	USA	Common stock	100%	
Celltech Manufacturing, Inc	USA	Common stock	100%	
Upstate Pharma, LLC	USA	Common stock	100%	
Celltech Technologies, Inc	USA	Common stock	100%	Leasing operations
Celltech US, Inc	USA	Common stock	100%	Holding companies
Celltech Holdings, Inc	USA	Common stock	100%	
Celltech Pharma Europe Limited	England	Ordinary shares	100%	Holding company 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 operations
Celltech Insurance (Ireland) Limited	Ireland	Common stock	100%	

* 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	
	2003 £m	2002 £m
Raw materials and consumables	**6.1**	5.8
Clinical trials material	**2.7**	7.9
Work in progress	**7.7**	10.6
Finished goods and goods for resale	**19.9**	19.1
Total	**36.4**	43.4

The clinical trials material amount comprises £2.5 million (2002: £nil) of CDP484 stock and £0.2 million (2002: £0.4 million) of other materials.

During the year, the Group wrote off £7.5 million of CDP571 stocks which were held at 31 December 2002.

15. Debtors

	Group	
	2003 £m	2002 £m
Trade debtors	43.7	50.0
Other debtors	10.3	13.7
Prepayments and accrued income	23.5	12.9
Total	77.5	76.6

Debtors include £9.3 million (2002: £5.9 million) which is recoverable in more than one year.

16. Equity investments

	Group	
	2003 £m	Dec 2002 £m
Equity investments	0.8	–

The equity investments held at 31 December 2003 relate to 1.3 million shares held in BioInvent, a company listed on the Danish stock market. The investment was inherited as part of the OGS acquisition. The market value of the Group's holding as at 31 December 2003 was £1.1 million.

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 was 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	
	2003 £m	2002 £m	2003 £m	2002 £m
Cash	38.5	81.1	0.2	22.3
Liquid resources	116.5	24.0	8.7	–
Total cash and liquid resources	155.0	105.1	8.9	22.3

As at 31 December 2002, Celltech held within cash and liquid resources £7.2 million of restricted funds in respect of financing arrangements with regard to the self insurance of methylphenidate (the alternative financing arrangements).

Following termination of the alternative financing arrangements for methylphenidate during 2003, the Group received £2.7 million in respect of the insurance deposit (2002: £2.7 million included as a liquid resource). This amount was returned to the Group net of interest and fees. In addition, an amount of £4.5 million has been released from a segregated fund previously held in the name of the Company and managed by one of the Group's fund managers in respect of the alternative financing arrangement.

18. Creditors: amounts falling due within one year

	Group	
	2003 £m	2002 £m
Accruals and deferred income	69.6	53.0
Trade creditors	32.6	24.5
Sales rebates and wholesaler charge backs	29.6	18.2
Other creditors	9.5	15.7
Senior loan notes	–	31.2
Deferred consideration	5.3	11.7
Leasing obligations	0.6	0.8
Corporation taxes	2.7	5.0
Total	149.9	160.1

The senior loan notes were repaid on 17 December 2003. They were unsecured and carried a fixed coupon rate of 6.51%.

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

	Group	
	2003 £m	2002 £m
Deferred consideration	**2.8**	8.9
Other creditors	**2.5**	2.9
Leasing obligations	**0.4**	0.9
Total	**5.7**	12.7

The deferred consideration amounts disclosed in both current and long-term creditors for 2003 and 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 £2.5 million (2002: £2.9 million) relate to pension obligations in the US (see note 27, Pension fund deficit).

Obligations under finance and operating leases

	Group	
Finance leases	**2003 £m**	2002 £m
Amounts payable:		
Within one year	**0.6**	0.8
Between two and five years	**0.5**	1.1
Less interest element	**(0.1)**	(0.2)
Finance lease obligations	**1.0**	1.7

Operating leases

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

	Land and buildings		Other	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Operating leases which expire:				
Within one year	**0.7**	–	**0.8**	0.1
Between two and five years	**0.5**	1.0	**0.6**	1.4
Over five years	**4.6**	5.0	**–**	–
Total annual commitment	**5.8**	6.0	**1.4**	1.5

The Company has no commitments under operating or finance leases.

20. Provisions for liabilities and charges

	Deferred tax (note 8) £m	Restructuring, integration and other (i) £m	Non–insured claims (ii) £m	Fair value (iii) £m	Group Total £m
Balance at 1 January 2003	57.3	3.0	2.9	–	63.2
Profit and loss account (credit)/charge	(36.2)	20.0	3.0	–	(13.2)
On OGS acquisition	–	–	–	34.2	34.2
Profit and loss account release	–	(0.2)	–	–	(0.2)
Utilised in year	–	(11.0)	–	(22.5)	(33.5)
Currency translation	(4.5)	–	–	–	(4.5)
Transferred from/(to) creditors	3.7	–	–	–	3.7
At 31 December 2003	**20.3**	**11.8**	**5.9**	**11.7**	**49.7**

(i) The remaining provision relates to restructuring charges booked during 2003 as described in note 5 of £11.3 million, along with other provisions of £0.5 million. The opening provision of £3.0 million included £2.0 million relating to ML Laboratories (see below) and other provisions of £1.0 million. The profit and loss account charge is the cash element of the exceptional items (see note 5). The utilisation is the spend on exceptional items of £8.9 million, along with £2.0 million paid to ML Laboratories and £0.1 million of other.

In 2002, 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 ML Laboratories of which the final £2.0 million was paid in January 2003. In total, the settlement of this liability resulted in a credit of £3.1 million to the Group profit and loss account taken in the year ended 31 December 2002.

(ii) Since 20 September 2001, the Group has been required to increase its levels of self insurance in respect of methylphenidate. In addition, the Group has decided to retain a level of self insurance in respect of all product liability up to an annual limit of $13.5 million, as well as self insurance in respect of methylphenidate of up to $20 million. Whilst no methylphenidate claims have been received since 20 September 2001, as at 31 December 2003 the Group has provided £5.4 million based on an external review of the likely liability associated with incidents that may arise from past sales of methylphenidate prior to 20 September 2003 and across all products after 19 September 2003. A further £0.5 million has been provided for product recall and other liabilities for which the Group has no external insurance.

(iii) On the acquisition of OGS the Group provided for certain onerous obligations. These relate primarily to lease obligations, committed development spend on non-valuable projects and other contractual obligations (see note 22).

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

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 repaid the private placement fixed borrowings of £31.2 million (US$50 million) in December 2003.

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 2003 the Group had £75 million of committed facilities (2002: £107.2 million) of which £75 million were undrawn (2002: £76.0 million) – see section (iv) of note below.

Foreign currency risk
Approximately 23% (2002: 50%) of the Group net assets (excluding goodwill) are in the US. 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.

(i) Interest rate risk

Interest rate risk profile of financial liabilities	At fixed interest 2003 £m	Interest-free 2003 £m	Group Total 2003 £m	At fixed interest 2002 £m	Interest-free 2002 £m	Group Total 2002 £m
Sterling	1.0	–	1.0	1.7	–	1.7
US dollar	–	10.6	10.6	31.2	23.5	54.7
Preference shares	–	–	–	3.4	2.4	5.8
Total	1.0	10.6	11.6	36.3	25.9	62.2

Fixed rate financial liabilities	Weighted average interest rates 2003 %	Weighted average period for which rates are fixed 2003 Months	Weighted average interest rates 2002 %	Weighted average period for which rates are fixed 2002 Months
Sterling	6.7	23	6.7	35
US dollars	–	–	6.5	12
Preference shares	–	–	6.9	3
Total	6.7	23	6.6	12

The interest-free liabilities are in relation to Dipentum deferred consideration and pension obligations provided in the US. The Group has no floating rate financial liabilities (2002: nil).

The financial liabilities of the Group comprised:

	2003 £m	2002 £m
Borrowings	–	31.2
Finance leases	1.0	1.7
Deferred consideration	8.1	20.6
Other creditors	2.5	2.9
Preference shares	–	5.8
Total	11.6	62.2

Interest rate risk profile of financial assets	At fixed interest rates £m	At floating interest rates £m	Interest-free £m	Total £m
Sterling	–	98.1	5.6	103.7
US dollar	–	43.1	3.7	46.8
Euro	–	13.6	–	13.6
Swiss francs	1.9	0.2	–	2.1
At 31 December 2003	1.9	155.0	9.3	166.2
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

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 rate financial instruments. Fixed rate deposits comprise £1.9 million (2002: £32.9 million) of convertible loan notes (see note 13 for duration) carrying a weighted average interest rate to maturity of 4% (2002: 6.8%). The interest-free assets relate to long-term debtors (see note 15). In 2002 the interest-free assets related to the investment in Neogenesis (see note 13) and long-term debtors (see note 15).

(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 2003	**(15.5)**	**4.1**	**(0.2)**	**(11.6)**
At 31 December 2002	(5.9)	6.8	(0.2)	0.7

(iii) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities as at 31 December 2003 was as follows:

	2003 £m
In one year or less	**5.9**
In more than one year but not more than two years	**3.2**
In more than five years	**2.5**
Total	**11.6**

(iv) Committed borrowing facilities

The facilities available as at 31 December 2003 were as follows:

	Committed 2003 £m	Undrawn 2003 £m
Revolving credit facility	**65.0**	**65.0**
Overdraft facility	**10.0**	**10.0**
Total	**75.0**	**75.0**
Expiring in less than one year	**10.0**	**10.0**
Expiring in more than one year but not more than two years	**65.0**	**65.0**

The committed bank facility is 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 is available until December 2005.

(v) Fair value of financial instruments

	Book value		Fair value	
	2003 £m	2002 £m	2003 £m	2002 £m
Primary financial instruments:				
Cash and short-term deposits	**155.0**	105.1	**155.0**	105.1
Convertible loan notes	**1.9**	32.9	**1.9**	32.9
Investment in Neogenesis	**–**	7.0	**–**	7.0
Long-term debtors	**9.3**	5.9	**9.3**	5.7
Other creditors	**(2.5)**	(2.9)	**(2.5)**	(2.9)
Finance leases	**(1.0)**	(1.7)	**(1.0)**	(1.7)
Senior loan notes	**–**	(31.2)	**–**	(31.2)
Deferred consideration	**(8.1)**	(20.6)	**(8.1)**	(20.6)
Equity investments	**0.8**	–	**1.1**	–
Derivative financial instruments – forward exchange contracts	**–**	–	**5.8**	8.8
Preference shares	**–**	(5.8)	**–**	(6.7)
Total	**155.4**	88.7	**161.5**	96.4

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. Neogenesis is an unlisted company and the total investment has been written down to £nil as at 31 December 2003 (see note 13). The market value of the Group's holding in BioInvent as at 31 December 2003 is £1.1 million (see note 16). In 2002, the Group's share price as of 31 December 2002 was used to determine the fair value of the preference shares. 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.

	2003 £m	2002 £m
Unrecognised gains at 1 January	**8.8**	1.9
Additional gains on unrecognised positions at 1 January recognised in the year	**1.7**	2.4
Total gains recognised in the year	**(10.5)**	(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
Unrecognised gains in the year on hedges taken out in 2003	**5.8**	–
Total unrecognised gains at 31 December	**5.8**	8.8

All the unrecognised gains as at 31 December 2003 are expected to be recognised during 2004.

22. Acquisition of subsidiary undertakings

OGS

Fair value

On 26 February 2003, Celltech announced the terms of a Cash Offer for the entire issued and to be issued share capital of OGS. On 11 April 2003, the Board of OGS recommended that shareholders accept the Offer by Celltech and by the 14 April 2003 the Group held more than 50% of the shares of the entity. The Offer of £1.82 for each OGS share, valued the company at £102.3 million (56 million issued shares at the date of acquisition, plus a further 0.9 million of subsequent option exercises at £1.82, less £1.2 million in option receipts). On 4 June 2003, Celltech announced that it had purchased or received valid acceptances in respect of 90.3% of the issued share capital of OGS, and had commenced the procedure for the compulsory acquisition of the remaining OGS shares. On 18 July 2003, the process was completed, and OGS was de-listed from the London Stock Exchange on 21 July 2003.

The total cost of the OGS acquisition was £106.1 million which includes £3.8 million of expenses.

The assets and liabilities of OGS acquired are as follows:

		Book value £m	Business held for resale £m	Fair value adjustments £m	Total fair value £m
Fixed assets	(a)	13.6	(8.0)	(5.6)	**–**
Investments	(b)	11.3	(5.8)	(4.7)	**0.8**
Stocks		0.2	(0.2)	–	**–**
Debtors	(c)	9.4	(2.9)	(2.9)	**3.6**
Cash and liquid resources		126.6	–	–	**126.6**
Creditors	(d)	(8.5)	0.7	3.5	**(4.3)**
Provisions	(e)	–	–	(34.2)	**(34.2)**
Deferred income		(8.2)	8.2	–	**–**
Businesses held for resale and acquisition of Confirmant	(f)	–	8.0	(2.5)	**5.5**
Net assets acquired		144.4	–	(46.4)	**98.0**
Total consideration					**(106.1)**
Goodwill					**(8.1)**

Fair value adjustments have been made to the book value of the assets and liabilities to adjust, where applicable, the carrying value of certain assets and liabilities. The above fair values are preliminary and will be further reviewed based on additional information available at 30 June 2004 and 31 December 2004.

Based on the preliminary fair value, £8.1 million of goodwill arises on this transaction. The goodwill has been capitalised and is being amortised over 10 years, which is based on the Directors' estimate of useful economic life.

22. Acquisition of subsidiary undertakings continued

The material fair value adjustments to the net assets of OGS were determined as follows:

(a) Tangible fixed assets have been written off, as they will not be used by Celltech and recoverable values are considered to be negligible. Intangible assets have not been capitalised separately from goodwill as the value of the business is considered to be primarily in early-stage oncology research projects. Celltech does not consider that a reliable valuation can be made of such projects suitable for capitalisation separate from goodwill.

(b) Investments have been written down to recoverable value based on market value and have been classified on the Celltech balance sheet as equity investments. OGS investments included a £4.3 million stake in Neogenesis which has been written down to nil (see notes 5 and 13).

(c) Debtors have been written down to recoverable value. A significant proportion of the OGS debtors were prepayments for activities and projects which were discontinued by Celltech. Consequently these had no value to Celltech.

(d) OGS creditor and accrual balances inherited were adjusted in the light of the actual settlements made post-acquisition.

(e) Fair value provisions have been established for onerous obligations inherited with the acquisition. These relate primarily to lease obligations, committed development spend on non-valuable projects and other contractual obligations, including payments to former senior executives who had change of ownership termination clauses in their service contracts.

(f) The proteomics business of OGS was held for resale. The fair value represents the estimated result of the business prior to any disposal together with the anticipated net proceeds from the assets inherited. The table below sets out the material balance aggregated on to the businesses held for resale line on acquisition.

	£m
Net receipt from termination of Confirmant Limited joint venture (see note 23)	6.4
Other – proteomics	(0.9)
Business held for resale	5.5

At the half year, the businesses held for resale line was reported as being £8.0 million, the adjusted fair value at 31 December 2003 reflects the unsuccessful outcome of efforts to dispose of the business (see note 23).

Due to the businesses no longer being held for disposal as at 31 December 2003 the remaining assets and liabilities of the proteomics business and Confirmant Limited are included within the usual statutory headings.

Information on OGS pre-acquisition results

The last financial statements of OGS were prepared for the year to 31 December 2002, and were audited by Ernst & Young. The summarised profit and loss account and statement of total recognised gains and losses for OGS for the period from 1 January 2003 to the end of April, the period prior to the effective date of acquisition, and for the preceding year are as follows:

	1 Jan to 30 Apr unaudited £m	31 Dec 2002 £m
Turnover	3.7	14.0
Net operating costs	(16.8)	(54.8)
Operating loss	(13.1)	(40.8)
Share of joint venture loss	(1.6)	(4.4)
Interest receivable	1.9	6.4
Amount written off investments	–	(2.4)
Loss on ordinary activities before taxation	(12.8)	(41.2)
Tax on loss on ordinary activities	–	3.3
Loss on ordinary net activities after taxation	(12.8)	(37.9)

Due to the significant restructuring undertaken on OGS, the above results are not indicative of the impact of the acquisition on Celltech's result. The turnover and operating losses of the business, before restructuring and goodwill items, consolidated by the Group for the period since acquisition are £nil and £3.9 million respectively. In addition, a charge of £4.5 million is included within exceptional items for OGS in respect of integration and products that are being discontinued. Both these amounts are reflected in the cash flow analysis of the impact of the acquisition of OGS shown below.

22. Acquisition of subsidiary undertakings continued

Impact of OGS acquisition on cash flows

OGS' contribution to the Group cashflow since the date of acquisition can be summarised as follows:

	£m
Operating result (£3.9 million operating loss, integration costs £4.5 million)	(8.4)
Cashflow on fair value provisions	(22.5)
Working capital movements	(4.4)
Net cash outflow from operating activities	(35.3)
Interest received	2.1
Taxation	3.6
Cash funding in respect of businesses held for resale	(0.9)
Cash outflow before use of liquid resources	(30.5)

The total impact on cash and liquid resources, including acquisition flows for the year ended 31 December 2003 but excluding the cost of continuing activities, is set out below:

	£m
Cost of shares	(102.3)
Transaction costs	(3.8)
	(106.1)
Cash and liquid resources inherited with OGS	126.6
Cash outflow since date of acquisition	(30.5)
Net Confirmant cash acquired	6.4
Costs in relation to continuing activities	3.9
Total inflow for the year ended 31 December 2003	0.3

23. Businesses held for resale

On acquisition of OGS, Celltech identified the proteomics business as being held for immediate disposal.

After significant initial interest the last potential buyer for the proteomics business withdrew from negotiations in late November 2003. At that point, a decision was taken to terminate the operations immediately. Consequently, from that date onwards, it was no longer appropriate to treat the business as a business held for disposal and, therefore, as part of the OGS closure costs a charge of £0.5 million was made in respect of proteomics redundancies.

OGS was party to a 50:50 joint venture with Marconi, in a company known as Confirmant Limited (Confirmant). The purpose of the joint venture was to integrate and leverage Marconi's broadband data transmission capabilities with OGS proteomics database. Confirmant had initial funding of £30 million contributed equally by Marconi and OGS. Confirmant operated with a separate management and sales team. Following the failure to dispose of the proteomics business, agreement was reached with Marconi to terminate the joint venture and distribute the remaining cash. This resulted in a payment to Marconi of £4.1 million and OGS then acquired full rights over the remaining £10.5 million of cash and liquid resources within Confirmant. This net £6.4 million 'receipt' has been included in determining the value of businesses held for disposal in note 22 above. The payment to Marconi took account of amounts owed to OGS and its share of the Confirmant closure costs.

The table below summarises the transactions:

	£m
Acquisition of remaining 50% of Confirmant	(4.1)
Cash acquired	10.5
Net cash acquired	6.4

24. 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 2003	141.3	83.3	621.4	(281.6)	564.4
Preference shares redeemed	(3.5)	–	(2.4)	–	(5.9)
Shares issued to meet redemption	1.0	4.9	–	–	5.9
Proceeds of exercise of Celltech share options	–	0.3	–	–	0.3
Currency translation difference on foreign currency net investments and net borrowings	–	–	–	(4.9)	(4.9)
Preference share dividends transferred to other reserves	–	–	0.1	(0.1)	–
Net transfer to profit and loss account	–	–	–	(53.9)	(53.9)
At 31 December 2003	**138.8**	**88.5**	**619.1**	**(340.5)**	**505.9**

Other reserves arise from the reorganisation of the Group structure on 1 October 1997 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 (2002: £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 2003	141.3	83.3	2.4	88.2	315.2
Preference shares redeemed	(3.5)	–	(2.4)	–	(5.9)
Issue of ordinary shares	1.0	5.2	–	–	6.2
Net transfer from profit and loss account	–	–	–	4.9	4.9
At 31 December 2003	**138.8**	**88.5**	**–**	**93.1**	**320.4**

Analysis of shareholders' funds

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Equity interests	**505.9**	558.6	**320.4**	309.4
Non-equity interests	**–**	5.8	**–**	5.8
Shareholders' funds	**505.9**	564.4	**320.4**	315.2

In 2002 non-equity comprises 6.9% convertible redeemable preference shares and accrued preference share dividends. No voting rights were attached to these shares.

Analysis of share capital

Authorised	**2003 Number**	2002 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

	2003 Number	2002 Number	**2003 £m**	2002 £m
Ordinary shares of 50p each	**277,654,453**	275,527,304	**138.8**	137.9
6.9% convertible redeemable cumulative preference shares of £1 each	**–**	3,467,790	**–**	3.4
Total	**277,654,453**	278,995,094	**138.8**	141.3

During the period, 170,351 ordinary shares were issued and fully paid upon the exercise of share options. The cash consideration received amounted to £0.3 million and resulted in an increase in the share premium account of £0.3 million.

On 31 March 2003, 3.5 million convertible redeemable cumulative preference shares were converted into ordinary shares at a price of £3 per share. In addition, the cumulative unpaid interest accrual of £2.4 million on these preference shares was also converted to ordinary shares at a price of £3 per share. In total, 1,956,798 new ordinary shares were issued on the conversion of the preference shares, equating to a redemption of £5,870,394 of preference shares and related interest.

24. Shareholders' funds continued

Share options outstanding to employees of the Group as at 31 December 2003 are as follows:

(i) Celltech Executive Share Option Schemes

1,856 employees hold options (including unapproved options) to subscribe for up to 14,974,819 shares at prices ranging between 205p and 1295p per share exercisable between 2003 and 2013. This includes both Chiroscience and Medeva originating Executive options. Included in this figure are 43,806 options held under the Chiroscience ESOP Trust.

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

947 employees hold options to subscribe for up to 2,016,628 ordinary shares at prices between 237p and 948p per share exercisable between 2003 and 2010.

(iii) Deferred Bonus Plan

13 employees hold options to subscribe for up to 455,350 shares. The shares are issued and are held in the Celltech Group plc Employee Share Trust.

25. Related party transaction

During the year, Celltech entered into a related party transaction with its new Chief Executive, Dr. Göran Ando.

The transaction involved the acquisition by Celltech on 22 October 2003 of Dr. Ando's home in Mendham Borough, New Jersey, USA. The purpose of the transaction was to expedite Dr. Ando's relocation to the United Kingdom.

The agreed acquisition price for the property was $2 million (£1.1 million) which was based on the mid-point of two independent valuations. The total cost to Celltech including acquisition-related expenditure amounted to $2,026,842.

The transaction involved full transfer of the rights to the property to Celltech; no further amounts become payable to or from Dr. Ando. Full settlement of the amounts due to Dr. Ando was made on 22 October 2003.

As at 31 December 2003 the property is still held by Celltech and is included within freehold tangible fixed assets, see note 12.

26. Financial commitments

(i) Capital expenditure

	2003 £m	2002 £m
Contracted	**7.8**	1.2

(ii) Manufacturing capacity

The Group has entered into significant manufacturing capacity arrangements as discussed below:

Sandoz (formerly Biochemie GmbH)

Celltech has contracted Sandoz, a subsidiary of Novartis, as a long-term source for the manufacture of its microbially produced antibody products (including CDP870). Celltech has reserved manufacturing capacity beginning 1 January 2004 and ending 31 December 2010. Celltech has potential take or pay obligations, which are subject to mitigation, under this agreement of approximately £41 million.

Lonza

Celltech has contracted Lonza as a long-term manufacturing source and has reserved manufacturing capacity until 31 December 2010. Under the contract there are varying sums payable each year under take or pay obligations. The total obligations over the period of the contract, which are subject to mitigation, amount to £14 million.

BioReliance

Celltech has a contract with BioReliance enabling the Group to reserve manufacturing capacity. The current minimum commitment is £2.2 million based on forecast requirements which have been submitted to BioReliance.

(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:	2003 £m	2002 £m
Celltech Pension and Life Assurance Scheme and Medeva Plans	**1.6**	2.2
US qualified scheme	**–**	1.1
US non-qualified scheme	**0.2**	0.2
Thiemann plan	**0.6**	0.5
Defined contribution schemes (US and UK)	**3.3**	1.6
Total	**5.7**	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 (CP&LAS), the Medeva UK Pension Plan and the Medeva Senior Executive Pension Plan are all closed to new members.

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

The contribution accrued at the end of the financial year in respect of the Group's UK pension scheme was £0.1 million. This was paid in accordance with trust rules in January 2004.

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

UK defined benefit Scheme

The last full actuarial valuation of the UK schemes for SSAP 24 purposes was undertaken as at 30 September 2002. However, an actuarial review has been carried out as at 30 September 2003.

The main financial assumptions for the 30 September 2003 review were as follows:

Rate of return	6.8%
Rate of increase in salaries	4.0%
LPI pension increases	2.5%
Revaluation in deferment	2.5%
Asset valuation method	Market value
Liability valuation	Attained age

The assets and liabilities of the scheme were as follows:

	30 Sep 2003 £m
Assets	39.6
Liabilities	(44.6)
Deficit in the scheme	(5.0)

The CP&LAS is thus funded at 89% 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 cash cost of the scheme is identical to the profit and loss charge and consequently there is no SSAP 24 prepayment nor provision.

On the basis of the actuarial reviews, the current average contribution rate paid by the Group is 14.7% of pensionable salaries (2002: 14.7%).

27. Pension arrangements continued

US Qualified Scheme

The most recent valuation of the plan under US accounting standards was carried out on 31 December 2003. At the valuation date, the market value of the assets of the plan was £8.9 million and the liabilities were £11.9 million. Thus the assets of the plan represented 75% of the value of the benefits that had accrued to members.

The projected unit method was used to derive the valuation above and the key actuarial assumptions are broadly in line with 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 plan under US accounting standards was carried out on 31 December 2003. 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 £2.5 million against this obligation, and also holds a RABBI account of £2.0 million for this liability (see (ii) below).

The projected unit method was used to derive the valuation above and the key actuarial assumptions are broadly in line with 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.

German (Thiemann) Plan

The most recent valuation of the plan was carried out as at 31 December 2003 under IAS 19. At the valuation date, the market value of the assets of the plan was £6.1 million and the liabilities were £12.2 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 £6.0 million outside of the scheme to cover the deficit. Thus in total there are assets of £12.1 million available to cover the liability of £12.2 million (as set out in the FRS 17 disclosures).

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 2003. 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 2003. The main financial assumptions used in this update were as follows:

	2003			2002			2001		
Assumptions	**UK %**	**US %**	**Germany %**	UK %	US %	Germany %	UK %	US %	Germany %
Inflation assumptions	**2.8**	**n/a**	**2.0**	2.3	3.0	2.0	2.6	3.0	2.0
Rate of increase in salaries	**4.3**	**n/a**	**3.0**	3.8	4.1-4.6	3.0	4.1	5.0	3.0
Rate of increase in pension payment	**2.1-2.7**	**–**	**1.5**	1.9-2.3	–	2.0	2.0-2.6	–	2.0
Discount rate	**5.4**	**6.0**	**5.3**	5.5	6.7	6.0	5.9	7.0	6.0
Long-term rate of return expected at 31 December									
Equities	**7.8**	**9.2**	**n/a**	7.5	9.0	n/a	7.2	10.0	n/a
Bonds	**5.4**	**6.0**	**n/a**	4.5	6.7	n/a	5.0	7.0	n/a
Insurance	**4.8**	**n/a**	**4.5**	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 2003 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 2003, the Group's net assets per the balance sheet would be reduced by £24.2 million (2002: £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 2003 as calculated in accordance with FRS 17 are shown on page 76.

27. Pension arrangements continued

Pension fund deficit continued

The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

	2003				2002				2001			
	UK £m	US £m	Germany £m	Total £m	UK £m	US £m	Germany £m	Total £m	UK £m	US £m	Germany £m	Total £m
Scheme assets												
Equities	32.6	5.5	–	38.1	29.5	4.2	–	33.7	38.5	5.7	–	44.2
Bonds	8.8	3.4	–	12.2	2.0	3.4	–	5.4	1.6	2.8	–	4.4
RABBI trust account	–	2.0	–	2.0	–	2.1	–	2.1	–	2.5	–	2.5
Insurance	0.9	–	12.1	13.0	3.9	–	11.1	15.0	–	–	10.0	10.0
Total fair value of assets	42.3	10.9	12.1	65.3	35.4	9.7	11.1	56.2	40.1	11.0	10.0	61.1
Present value of scheme liabilities	(64.1)	(14.5)	(12.2)	(90.8)	(52.1)	(13.3)	(11.0)	(76.4)	(48.0)	(15.7)	(9.6)	(73.3)
Deficit in the scheme	(21.8)	(3.6)	(0.1)	(25.5)	(16.7)	(3.6)	0.1	(20.2)	(7.9)	(4.7)	0.4	(12.2)
Related deferred tax credit	–	1.5	–	1.5	–	1.5	–	1.5	–	–	–	–
Net pension fund scheme (deficit)/surplus under FRS 17	(21.8)	(2.1)	(0.1)	(24.0)	(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	–	(2.8)	–	(2.8)	–	(2.1)	(0.5)	(2.6)	–	(2.5)	(0.4)	(2.9)
Provision, net of deferred tax	0.1	2.5	–	2.6	–	2.9	–	2.9	1.0	3.0	–	4.0
Adjustment to FRS 17, net of related deferred tax	(21.7)	(2.4)	(0.1)	(24.2)	(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	505.9	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	481.7	n/a	n/a	n/a	546.0	n/a	n/a	n/a	608.1

The RABBI trust 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.

Included within the insurance assets held in Germany are £6.0 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.

FRS 17 pension charge in respect of defined benefit Schemes

	2003				2002			
	UK £m	US £m	Germany £m	Total £m	UK £m	US £m	Germany £m	Total £m
Operating profit								
Current service cost	1.4	0.1	0.2	1.7	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)	1.4	0.1	0.2	1.7	1.7	(1.3)	0.2	0.6
Finance expense								
Expected return on pension scheme assets	(2.5)	(0.6)	(0.3)	(3.4)	(2.8)	(0.7)	(0.2)	(3.7)
Interest charge	2.9	0.9	0.7	4.5	2.9	1.0	0.6	4.5
Net expense	0.4	0.3	0.4	1.1	0.1	0.3	0.4	0.8
Loss/(gain) before taxation	1.8	0.4	0.6	2.8	1.8	(1.0)	0.6	1.4

27. Pension arrangements continued

	2003				2002			
	UK £m	US £m	Germany £m	Total £m	UK £m	US £m	Germany £m	Total £m
Consolidated statement of recognised gains and losses								
Actual return less expected return on pension schemes' assets	**3.0**	**0.9**	**(0.1)**	**3.8**	(6.2)	(1.9)	0.3	(7.8)
Experience (losses)/gains arising on the schemes' liabilities	**(0.9)**	**(0.2)**	**0.6**	**(0.5)**	0.3	0.7	(0.4)	0.6
Changes in assumptions underlying the present value of the schemes' liabilities	**(7.0)**	**(1.9)**	**(0.6)**	**(9.5)**	(3.8)	(0.5)	–	(4.3)
Actuarial loss recognised	**(4.9)**	**(1.2)**	**(0.1)**	**(6.2)**	(9.7)	(1.7)	(0.1)	(11.5)

Additional disclosures required by FRS 17

	2003				2002			
	UK £m	US £m	Germany £m	Total £m	UK £m	US £m	Germany £m	Total £m
Difference between the expected and actual return on scheme assets:								
Amount	**3.0**	**0.9**	**(0.1)**	**3.8**	(6.2)	(1.9)	0.3	(7.8)
Percentage of scheme assets	**7%**	**8%**	**(1%)**	**6%**	(18%)	(20%)	2%	(14%)
Experience gains and losses on scheme liabilities:								
Amount	**(0.9)**	**(0.2)**	**0.6**	**(0.5)**	0.3	0.7	(0.4)	0.6
Percentage of the present value of scheme liabilities	**(1%)**	**(1%)**	**5%**	**(1%)**	1%	5%	(4%)	1%
Total amount recognised in statement of total recognised gains and losses:								
Amount	**(4.9)**	**(1.2)**	**(0.1)**	**(6.2)**	(9.7)	(1.7)	(0.1)	(11.5)
Percentage of the present value of scheme liabilities	**(8%)**	**(8%)**	**(1%)**	**(7%)**	(19%)	(13%)	(1%)	(15%)

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

	2003				2002			
	UK £m	US £m	Germany £m	Total £m	UK £m	US £m	Germany £m	Total £m
(Deficit)/surplus in schemes at beginning of the year	**(16.7)**	**(3.6)**	**0.1**	**(20.2)**	(7.9)	(4.7)	0.4	(12.2)
Current service cost	**(1.4)**	**(0.1)**	**(0.2)**	**(1.7)**	(2.0)	(1.1)	(0.2)	(3.3)
Contributions	**1.6**	**1.0**	**0.4**	**3.0**	2.7	1.3	0.4	4.4
Past service costs	**–**	**–**	**–**	**–**	(0.2)	–	–	(0.2)
Other finance income	**(0.4)**	**(0.3)**	**(0.4)**	**(1.1)**	(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	**(4.9)**	**(1.2)**	**(0.1)**	**(6.2)**	(9.7)	(1.7)	(0.1)	(11.5)
Loss on RABBI trust	**–**	**–**	**–**	**–**	–	(0.2)	–	(0.2)
Exchange	**–**	**0.6**	**0.1**	**0.7**	–	0.5	–	0.5
(Deficit)/surplus in schemes at the end of the year	**(21.8)**	**(3.6)**	**(0.1)**	**(25.5)**	(16.7)	(3.6)	0.1	(20.2)

Reserves note	2003 Total £m	2002 Total £m
Profit and loss reserve excluding FRS 17 additional pension liability	**(340.5)**	(281.6)
FRS 17 additional pension liability	**(24.2)**	(18.4)
Profit and loss reserve	**(364.7)**	(300.0)

28. Contingent liabilities

(a) The Group has unsecured and undrawn overdraft facilities of £10 million (2002: £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 £2.5 million (2002: £2.5 million), of which £1.0 million (2002: £1.4 million) has been utilised. The Company has also provided guarantees to XL Winterthur International of $13.5 million in respect of reinsurance liabilities and €8 million to Sandoz in respect of manufacturing capacity arrangements.

(b) The principal litigation in which the Group has been involved in 2003 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 close to 7,000 of these cases, approximately 1,500 of which were pending as at 31 December 2003. 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 February 2004, the Group had been formally dismissed from approximately 5,370 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 agreed to or 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.

(ii) MedImmune

Litigation relating to Synagis

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

The claim with respect to the US patent was dismissed by the High Court in November 2002. Celltech's appeal to the Court of Appeal was dismissed by a majority decision in July 2003 with an Order that Celltech pay MedImmune's legal costs. As at 31 December 2003, MedImmune's claim for legal costs had been settled and paid by Celltech. The claim with respect to the German patent is scheduled for hearing in the High Court at the end of March 2004.

On 14 October 2003, Celltech obtained the grant of a further US patent which also falls within the scope of the licence granted to MedImmune. In January 2004, MedImmune filed a declaratory action in the US District Court for the District of Columbia in respect of this patent seeking a declaration that its Synagis product does not infringe the patent and that the patent is invalid. This matter also forms the subject of further litigation in the UK.

Since the scope of MedImmune's claims are limited to seeking a declaration that it owes no royalties in respect of Synagis, Celltech has no potential liability under any of this pending litigation save in respect of MedImmune's legal costs should Celltech's claim in the UK Courts fail.

Litigation relating to Boss/Cabilly patent interference settlement

On 23 December 2003, the US District Court for the Central District of California granted summary judgement in favour of Celltech and Genentech that the settlement of the Boss/Cabilly patent interference between Celltech and Genentech was immune from claims brought in a lawsuit by MedImmune under antitrust and unfair competition laws. On 19 February 2004 the Court granted final judgement in favour of Celltech and Genentech on those causes of action. Claims by MedImmune against Genentech that the Cabilly patent is invalid and not infringed are pending in the same matter, but those claims were not asserted against Celltech. MedImmune has indicated its intention to

appeal the judgement. Should MedImmune appeal and ultimately prevail in its claims, Celltech would be liable to pay damages, a reasonable estimate of which cannot be made at this time.

(iii) 69kD

Celltech is the owner of patents for 69kD, the Bordetella pertussis protein also 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 in Italy against Chiron for infringement of one of Celltech's patents relating to the 69kD antigen and is 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 which will be heard on 19 March 2004.

(iv) Lonza

On 14 July 2003, Celltech announced that it had entered into a long-term supply agreement with Lonza, under which Lonza will manufacture PEGylated antibody fragment based drugs for Celltech at its microbial production facility. At the same time, Celltech and Lonza announced a settlement for the termination of the CDP571 manufacturing agreement. The Group had provided as at 31 December 2002 for management's best estimate of the amounts expected to materialise from the termination of this agreement. The terms of the settlement have not resulted in any additional charge to the profit and loss account.

(v) Alpharma

During 2002 Celltech sold its Armstrong business to Andrx. This operation had a product supply contract with a customer, Alpharma. During 2003, Alpharma voluntarily withdrew the product from sale claiming that an element of the production process did not have the required FDA approval. They have filed a suit against Andrx and Celltech has recently been included as a co-defendant in respect of liabilities arising when Celltech owned the Armstrong business. Based on the merits of its defence, Celltech believes that the ultimate outcome of this litigation will not have a material adverse effect on the financial position and results of the Company. However, if the Company were ultimately held liable, the damages that would be payable 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.

(c) Self insurance

Since 20 September 2001, the Group has been required to increase its levels of self insurance in respect of methylphenidate. In addition, the Group has decided to retain a level of self insurance in respect of all product liability up to $13.5 million, as well as self insurance in respect of methylphenidate of up to $20 million. Whilst no methylphenidate claims have been received since 20 September 2001, the Group has provided £5.4 million based on an external review of the likely liability associated with incidents that may arise from past sales of methylphenidate prior to 20 September 2003 and across all products after 19 September 2003.

29. Consolidated cash flow statements

Reconciliation of operating loss to net cash outflow from operating activities

	2003 £m	2002 £m
Operating loss	**(63.6)**	(44.7)
Operating exceptional items	**18.9**	–
Operating loss before exceptional costs	**(44.7)**	(44.7)
Depreciation	**13.9**	13.3
Goodwill amortisation	**94.2**	93.7
Intangibles amortisation	**3.2**	1.0
(Increase)/decrease in stocks	**(3.6)**	0.1
(Increase)/decrease in debtors	**(6.6)**	0.9
Increase/(decrease) in creditors	**28.9**	(9.7)
Settlement of fair value provisions	**(22.5)**	–
Net cash inflow from operating activities before restructuring costs	**62.8**	54.6
Outflow relating to operating exceptional costs	**(5.1)**	(5.2)
Outflow relating to termination of operations	**(3.8)**	–
Net cash inflow from operating activities	**53.9**	49.4

Analysis of changes in net funds

	At 1 Jan 2003 £m	Acquisitions £m	Cash flow £m	Exchange movements £m	At 31 Dec 2003 £m
Cash	81.1	–	(37.5)	(5.1)	**38.5**
Liquid resources	24.0	99.5	(7.0)	–	**116.5**
Finance leases	(1.7)	–	0.7	–	**(1.0)**
Loans	(31.2)	–	28.5	2.7	**–**
Net funds	72.2	99.5	(15.3)	(2.4)	**154.0**

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

	Total continuing operations				
	2003	2002	2001	2000	1999
Turnover	**353.3**	329.6	303.1	250.2	243.4
Cost of sales	**(101.5)**	(94.7)	(83.5)	(74.1)	(72.5)
Gross profit	**251.8**	234.9	219.6	176.1	170.9
Investment in research and development	**(106.1)**	(95.7)	(90.7)	(78.5)	(80.9)
Selling, marketing and distribution expenses	**(67.4)**	(71.5)	(78.6)	(52.0)	(57.1)
Administrative expenses	**(31.3)**	(26.8)	(24.9)	(26.7)	(33.4)
Operating profit/(loss) before other income	**47.0**	40.9	25.4	18.9	(0.5)
Other income	**2.5**	8.1	18.8	4.6	20.2
Operating profit	**49.5**	49.0	44.2	23.5	19.7
Net interest receivable/(payable)	**2.7**	1.4	3.6	1.6	(0.1)
Profit before tax	**52.2**	50.4	47.8	25.1	19.6

Basis of preparation

1. The results are presented before goodwill and exceptional items.
2. The 2002, 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 and OGS are excluded.
4. The 2003, 2002 and 2001 figures are extracted, without adjustment, from the audited profit and loss account, before goodwill and exceptional items presented in the relevant financial statements. 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 2003

Profit and loss account

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

	Notes	2003	2002
Loss for the period under UK GAAP		**(53.9)**	(45.8)
US GAAP adjustments:			
Revenue recognition	i	**27.3**	(12.7)
Medeva goodwill adjustments	ii	**(20.1)**	(3.6)
Amortisation of goodwill and other intangibles	iii	**64.2**	39.8
Pension costs		**(0.6)**	(1.9)
Stock-based compensation	iv	**(0.9)**	7.2
OGS acquisition – in process research and development	v	**(2.3)**	–
OGS acquisition – other	vi	**(3.6)**	–
Exceptional items	vii	**4.4**	–
Unrealised gains on derivative financial instruments	viii	**(3.0)**	6.9
Deferred taxation	ix	**(4.7)**	(5.1)
Taxation on GAAP difference		**(0.8)**	–
Net profit as adjusted to accord with US GAAP		**6.0**	(15.2)

Shareholders' funds

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

	Notes	2003	2002
Shareholders' funds under UK GAAP		**505.9**	564.4
US GAAP adjustments:			
Revenue recognition	i	**1.5**	(25.8)
Goodwill and intangibles	iii	**180.9**	163.2
OGS acquisition – other	vi	**2.2**	–
Pensions		**(0.4)**	0.2
Pensions – other comprehensive income	xi	**(21.0)**	(14.0)
Unrealised gains on derivative financial instruments	viii	**5.8**	8.8
Employee Share Ownership Plan	x	**(1.7)**	(0.3)
Exceptional items	vii	**4.4**	–
Deferred taxation	ix	**(4.7)**	–
Taxation		**(0.8)**	–
Shareholders' funds as adjusted to accord with US GAAP		**672.1**	696.5

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. Arrangements with multiple deliverables are evaluated and if the elements are determined to be separable, these elements, such as milestones and research and development contributions 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 arrangements. During the year Pfizer terminated its relationship on CDP870 with Celltech. Income previously deferred under US GAAP has consequently been released to the profit and loss account.

(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. The 2003 adjustment is in respect of the settlement of certain tax exposures. After the look-back period, under UK GAAP, potential tax liabilities that are recorded at acquisition and are subsequently released are recorded as an income tax benefit. Under US GAAP, the release of the tax liability is recorded as an adjustment to goodwill.

(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 certain other differences also arose on the acquisitions of Medeva and OGS. 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. Goodwill and infinite lived intangible assets are tested for impairment annually or when events indicate that assets may be impaired.

(iv) 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 stock compensation arrangements based on the excess of the market price over the exercise price at the measurement date.

(v) OGS acquisition – in process research and development

Under US GAAP, purchase accounting a fair value exercise is performed to identify in process research and development in an acquired company. The purchased in process research and development, once valued, is immediately expensed. The in process research and development determined in the preliminary purchase price allocation has been reduced to the extent that negative goodwill was identified.

(vi) OGS acquisition – other

Under UK GAAP, certain businesses acquired with OGS were held for immediate resale. Provision for the result of these businesses notably proteomics and Confirmant was made in the opening balance sheet. Under US GAAP the results of the businesses post-acquisition are charged to the profit and loss account. In addition, US GAAP and UK GAAP differ in the timing of the recognition of certain provisions and closure costs.

(vii) Exceptional items

US GAAP and UK GAAP differ in the timing of the recognition of certain redundancy arrangements and other closure costs.

(viii) 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 currently of the gains or losses that have arisen and should be taken to the profit and loss account.

(ix) Deferred taxation

UK GAAP, FRS 19, requires that the Group recognise deferred tax assets in respect of timing differences associated with goodwill. Under US GAAP, no deferred tax liability is recognised on the difference between the financial carrying value and the tax basis of recorded goodwill for which amortisation is not deducted for tax purposes.

(x) 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.

(xi) Pensions - other comprehensive income

Under US GAAP, an additional minimum pension liability is recognised through other comprehensive income in certain circumstances when there is a deficit of plan assets relative to the accumulated benefits obligation. Under UK GAAP, SSAP 24, there is no such requirement.

Shareholder Information

as at 31 December 2003

Analysis of share register at 31 December 2003

Shareholding range	Number of holders	Percentage of total holders	Number of shares
1 - 1,000	**16,547**	**80.74**	**5,671,792**
1,001 - 5,000	**2,878**	**14.04**	**5,798,447**
5,001 - 25,000	**569**	**2.78**	**6,389,349**
25,001 - 500,000	**411**	**2.00**	**50,949,522**
500,001 - 1,000,000	**45**	**0.22**	**31,390,416**
1,000,001 and over	**45**	**0.22**	**177,454,927**
	20,495	**100.00**	**277,654,453**

Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Tel: 0870 6003970

Financial calendar
Annual General Meeting to be held at:
Merchant Taylors' Hall
30 Threadneedle Street
London
On Thursday 27 May 2004 at 11.30 am

Announcements
Half-year results:
September 2004
Preliminary announcement
of full-year results:
March 2005

The Shareview portfolio service from Lloyds TSB Registrars provides information on your investments including balance movements and indicative share prices.

The portfolio service is:

Easy to use - You just need your User ID and PIN to log on. Information about your shareholdings is displayed clearly and conveniently and is updated regularly from our records. Registration takes only a few minutes.

Secure - Data transferred to your browser is encrypted and other internet users cannot gain access to your portfolio without your User ID and PIN.

Free - As long as you have a PC and access to the internet, there is no further payment to use the service.

For more details on this and practical help on transferring shares or updating your details, visit www.shareview.co.uk.

Company Information

Celltech Group plc
208 Bath Road
Slough
Berkshire SL1 3WE
United Kingdom
Telephone: 01753 534655
Facsimile: 01753 536632
Internet: www.celltechgroup.com

Company advisers
Auditor: KPMG Audit Plc
Corporate Relations: Brunswick
Investment Bankers: J P Morgan, Morgan Stanley
Solicitors: Allen & Overy
Stockbrokers: Cazenove

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.

DESIGN: CV&Co. **PRINTED BY:** PARK COMMUNICATIONS LIMITED, ENGLAND