CELLTECH GROUP PLC
Form 20-F
June 25, 2004
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-10817

CELLTECH GROUP PLC

(Exact name of Registrant as specified in its Charter)

ENGLAND AND WALES

(Jurisdiction of incorporation or organization)

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208 BATH ROAD

SLOUGH

BERKSHIRE SL1 3WE

ENGLAND

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value 50 pence sterling per share	**New York Stock Exchange***

* Listed, not for trading, but only in connection with the listing of the issuer s American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each class of the issuer s capital or common stock as of the close of the period covered by the annual report.

277,654,453 Ordinary Shares, nominal par value 50 pence sterling per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

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FORWARD LOOKING STATEMENTS

We have made forward-looking statements in this annual report that are based on the beliefs of our management as well as assumptions made by and information currently available to us. These statements include those addressed to the completion of research and clinical trials involving our products, the receipt of regulatory approvals, the acquisition of other companies in the biopharmaceutical industry and the integration thereof into our group, the adequacy of our capital resources, trends relating to the biopharmaceutical industry and others. When used in this document, the words anticipate, believe, estimate, expect, plan, intend , will and may and similar expressions, as they relate to us or our manag intended to identify forward-looking statements.

Forward-looking statements reflect our current view with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from the future results, performance or achievements that may be expressed or implied by the forward-looking statements, including, among others, those set forth elsewhere in this annual report, especially in Item 3 Key Information Risk Factors , Item 4 Information on the Company Business Overview Government Regulation and Item 5-Operating and Financial Review and Prospects , in our reports filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934 and the following:

- the consummation of the proposed acquisition of our company by UCB S.A., described in Item 4 below;
- the results of research and pre-clinical and clinical trials involving our products;
- the failure to receive regulatory approvals on a timely basis or at all and to maintain them once received;
- the loss of or inability to obtain patent or trademark protection for certain products;
- legislative and regulatory changes relating to pharmaceutical products, including those related to mandated prices for our pharmaceutical products;
- the difficulties inherent in scaling pilot manufacturing processes up to commercial levels;
- the failure to maintain adequate capital resources;
- the difficulties inherent in integrating acquired businesses into the Company s business operations;
- the introduction of competing products by other companies or other events that change anticipated levels of demand for products;
- disruption to our Rochester or Bardsley Vale facilities;
- the lack of acceptance of any new products we may develop;

failure of government agencies and other third party payers to reimburse drug and treatment costs of our products;

changes in currency exchange rates and interest rates;

changes in general economic and business conditions;

the outcome of pending legal proceedings;

the failure of our development, manufacturing and marketing partners to perform our contractual obligations;

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the decision of our research and development partners to terminate their collaborations with us.

changes in business strategy; and

unidentified side effects of, or adverse publicity in respect of, our products.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this annual report as anticipated, believed, estimated, expected, planned or intended. We disclaim any obligation to update the forward-looking statements contained herein.

CURRENCIES AND EXCHANGE RATES

We publish our financial statements in pounds sterling. In this annual report, references to US dollars, $ or ¢ are to the currency of the United States (US) and references to pounds sterling, pounds, sterling, £, pence or p are to the currency of the United Kingdom (UK). There are each $1.00 and 100p to each £1.00.

Solely for your convenience, we have translated certain pounds sterling amounts in this annual report into US dollars. The rate of translation is based on the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on the various dates specified where the translations are set forth in this annual report. These translations should not be taken as assurances that the sterling amounts actually represent these US dollar amounts or were or could be converted in US dollars at the rate indicated or at any other rate. When we refer to the noon buying rate in this annual report, we are referring to this rate. The noon buying rate was $1.82 per £1.00 on June 14, 2004. See Item 3 Key Information Risk Factors Currency Fluctuations .

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF CELLTECH

The following selected historical consolidated financial data of Celltech Group plc and subsidiaries (referred to herein interchangeably as Celltech, the company, the group, we and us) have been derived from the audited Consolidated Financial Statements of Celltech as of Decem 31, 2003 and 2002, and for the years ended December 31, 2003, 2002 and 2001 included elsewhere in this annual report. The financial results of Oxford Glycosciences PLC (OGS) have been consolidated within our financial results with effect from April 14, 2003. The selected consolidated financial data as of December 31, 2000 and September 30, 1999 for the years ended December 31, 2000 and September 30, 1999 are derived from the audited financial statements included in our annual reports to shareholders for the relevant years, reclassified where appropriate to conform with our presentation. In 1999, we changed our financial year-end from September to December and accordingly we present results for the 15 months

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ended December 31, 1999 and the three months ended December 31, 1999. The selected financial data are qualified by, and should be read in conjunction with, the financial statements included elsewhere in this annual report.

Our financial statements are prepared in accordance with UK GAAP which differs from US GAAP. The significant differences applicable to us are set out in Note 30 of Notes to the Financial Statements of Celltech included elsewhere in this annual report.

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	15 Months Ended December 31, 1999	3 Months Ended December 31, 1999	Year Ended September 30, 1999
	£	£	£	£	£	£	£
			(in millions, except share and per share data)				
Profit and loss account data							
AMOUNTS IN ACCORDANCE WITH UK GAAP							
Sales	353.3	329.6	303.1	235.5	55.4	4.7	50.7
Cost of sales	(101.5)	(94.7)	(83.5)	(69.7)	(21.3)	(1.1)	(20.2)
Gross profit	251.8	234.9	219.6	165.8	34.1	3.6	30.5
Research and development	(106.1)	(95.7)	(90.7)	(74.8)	(81.6)	(19.9)	(61.7)
Selling, marketing and distribution expense	(67.4)	(71.5)	(78.6)	(46.8)			
Corporate, general and administrative	(144.4)	(120.5)	(125.3)	(476.0)	(14.0)	(2.7)	(11.3)
Other operating income	2.5	8.1	18.8	4.6	24.2	2.4	21.8
Operating loss	(63.6)	(44.7)	(56.2)	(427.2)	(37.3)	(16.6)	(20.7)
(Loss)/profit on ordinary activities before taxation	(82.5)	(43.3)	(52.6)	(425.6)	38.2	66.5	(28.3)
(Loss)/profit for the period	(53.9)	(45.8)	(55.5)	(424.5)	36.6	67.9	(31.3)
(Loss)/earnings per share basic	(19.5)p	(16.7)p	(20.3)p	(161.6)p	24.8p	45.6p	(21.5)p
(Loss)/earnings per share diluted	(19.5)p	(16.7)p	(20.3)p	(161.6)p	24.3p	44.6p	(21.5)p
Weighted average number of shares basic	276.4	275.4	274.5	262.8	146.5	148.6	146.2
Weighted average number of shares diluted	278.0	277.9	279.0	269.3	150.5	152.3	146.2
AMOUNTS IN ACCORDANCE WITH US GAAP							
Net sales	343.0	328.1	303.1	235.5	18.0	4.5	13.5
	(107.2)	(99.4)	(99.1)	(74.8)	(52.1)	(19.6)	(32.5)

Research and development							
Operating profit/(loss)	0.3	(9.0)	(82.8)	(174.9)	(55.5)	(22.2)	(33.3)
Profit/(loss) before taxes	3.0	(7.6)	(79.2)	(173.3)	(51.7)	(20.8)	(31.0)
Net profit/(loss)	6.0	(15.2)	(85.8)	(177.2)	(51.9)	(19.4)	(32.6)
Basic and diluted net profit/(loss) per ordinary share	2.2	(5.5)p	(31.3)p	(67.4)p	(53.4)p	(13.1)p	(38.5)p
Basic and diluted net profit/(loss) per ADS	4.3	(11.0)p	(62.6)p	(134.8)p	(106.8)p	(26.2)p	(77.0)p
Weighted average number of shares basic	275.4	275.4	274.5	262.8	97.9	148.6	85.1
Weighted average number of shares diluted	278.0	277.9	279.0	269.3	150.5	152.3	146.2
Net profit/(loss) had SFAS 142 been adopted	6.0	(15.2)	(12.3)	(109.5)	(45.5)	(15.6)	(30.0)
Basic and diluted net profit/(loss) per ordinary share had SFAS 142 been adopted	2.2p	(5.5)p	(4.5)p	(41.7)p	(46.5)p	(10.5)p	(35.3)p
Balance sheet data (at end of period)							
AMOUNTS IN ACCORDANCE WITH UK GAAP							
Cash and liquid resources	155.0	105.1	90.4	76.6	121.7	121.7	73.2
Total assets	711.2	800.4	860.9	874.7	162.0	162.0	115.0
Long-term obligations	(55.4)	(75.9)	(122.5)	(112.2)	(0.1)	(0.1)	(29.3)
Shareholders funds	505.9	564.4	619.2	669.4	126.8	126.8	58.2
AMOUNTS IN ACCORDANCE WITH US GAAP							
Cash and cash equivalents	155.0	102.4	90.4	76.6	121.7	121.7	73.2

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	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	15 Months Ended December 31, 1999	3 Months Ended December 31, 1999	Year Ended September 30, 1999
	£	£	£	£	£	£	£
	(In millions, except share and per share data)						
Total assets	897.6	972.7	1,012.9	1036.7	378.4	378.4	396.7
Long-term obligations	(76.3)	(90.5)	(117.4)	(101.9)	(0.1)	(0.1)	(0.9)
Shareholders equity	(672.1)	696.5	763.2	841.7	343.2	343.2	366.9

We publish our financial statements in pounds sterling. The following table sets forth, for the years, months and dates indicated, the noon buying rate in New York City for cable transfers in pounds sterling as certified by the Federal Reserve Bank of New York for customs purposes (the noon buying rate):

US($) to pounds sterling (£)[1]	Average rate during period[2][3]
1999	1.62
2000	1.51
2001	1.44
2002	1.51
2003	1.65

US($) to pounds sterling (£)[1]	Highest rate during period	Lowest rate during period
2003		
December	1.78	1.72
2004		
January	1.85	1.79
February	1.90	1.81
March	1.86	1.79
April	1.86	1.77
May	1.84	1.75
June (to June 14)	1.84	1.82

The noon buying rate on June 14, 2004 was $1.82 = £1.

(1) All figures have been taken directly or derived from figures released through the Public Information Office of the Federal Reserve in Washington, D.C. or New York City.

(2) The noon buying rate on such dates may differ from the rates used in preparation of the group s financial statements as of such dates.

(3) The average is the average of the noon buying rate on the last day of each month during the period indicated.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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D. RISK FACTORS

You should carefully consider the following risk factors. The risks described below are not the only risks we face. Additional risks not currently known to us or that we currently deem immaterial may also impair our business operations. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. This annual report also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See Forward Looking Statements.

If We Are Unable To Develop Commercially Successful Products, We May Be Unable To Generate Growth or Sustain Revenues. We have a variety of product candidates in various stages of development and will need to undertake substantial additional research and development and pre-clinical and clinical testing of our product candidates. Our efforts may not result in the development of a sufficient number of commercially successful products, or any commercially successful products, in which case we will not be able to generate significant growth in revenues. For example, our near-term results are dependent on the successful development, registration and commercialization of CDP 870 in both the rheumatoid arthritis and Crohn s disease indications. In addition, sales revenues from our existing marketed products will decrease as those products reach the end of their commercial lives.

We may fail to successfully develop a product candidate for many reasons including:

- our pre-clinical discovery efforts prove unsuccessful;
- a product candidate fails in pre-clinical studies;
- a product candidate is not shown to be safe and effective in clinical trials;
- we fail to obtain regulatory approval for a product candidate;
- we fail to produce a product in commercial quantities at an acceptable cost; and
- a product is eclipsed by a better new product or does not gain market acceptance.

Our Success is Highly Dependent on Collaborators. Our primary focus will continue to be on the research and development of new pharmaceutical products. The development, manufacturing and commercialization of a number of the product candidates in our pipeline continue to be dependent on our collaborators as our collaborators have substantial responsibility for the development, manufacturing and commercialization of these product candidates. The collaborators also have significant discretion over the resources they devote to these efforts. Our success, therefore, will depend on the ability and efforts of these outside parties in performing their responsibilities. We cannot guarantee that our collaborators will devote sufficient resources to collaborations with us or that relevant product candidates can be developed, manufactured and commercialized without our collaborators.

Our strategy continues to be to seek collaboration partners for certain of our product candidates. Such collaborations provide important funding through signature and milestone payments, and the assimilation of certain ongoing development, manufacturing and commercialization

expenditure by our collaborators, as well as provision of critical development, manufacturing and commercialization expertise. If we are unable to enter into new collaboration agreements, we may be unable to fund further development of our product candidates, or may lack the expertise to conduct developments, manufacturing and commercialization of our product candidates. We may be unable to establish additional collaborative arrangements for our product candidates or license agreements on favorable terms, or at all, and any such arrangement or agreement may not prove successful. In addition, our current collaboration arrangements may be terminated, as was the case in December 2003 when Pfizer terminated the CDP 870 arrangement. Such terminations may require us to rapidly assimilate many activities that had previously been carried out by our partner(s). Currently, we are in discussions with potential parties to agree to terms of a new collaboration for CDP 870 in the rheumatoid arthritis indication.

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In addition, our collaborators and licensees may pursue alternative technologies either on their own or in collaboration with others, including our competitors.

We Will Require Additional Financing if We are Unable to Generate Significant Revenues from Operations and from Collaborative and Licensing Arrangements and Strategic Alliances. This Financing May Not Be Available or May Be Available on Terms That Dilute Our Shareholders Interests. Although we do not anticipate that additional financing will be necessary to support our ongoing operational requirements, if revenues from product sales, collaborative and licensing arrangements and strategic alliances are insufficient to fund proposed projects, then we will require additional financing. We may not be able to obtain additional financing on favorable terms or at all. If we have insufficient funds or are unable to raise additional funds, we may be required to delay, reduce or cease certain of our programs and may be unable to continue our operations at their current level.

Future financings may result in the substantial dilution of shareholders interests and may result in future investors being granted rights superior to those of existing shareholders. For a discussion of our liquidity, see Item 5 Operating and Financial Review and Prospects .

Our Existing Manufacturing, Sales and Marketing Capabilities Are Limited In Scope. In particular, we do not currently have in-house manufacturing capabilities for our biological products. We have entered into two long-term agreements to reserve substantial future manufacturing capacity prior to receiving final regulatory approval for a product, and may enter into further similar agreements in the future. Should we subsequently not require the reserved capacity for our product candidates, we would be left with potentially onerous commitments that we may not be able to mitigate or utilize for other product candidates. In addition, our current and potential future collaborators and licensees may pursue alternative manufacturing technologies or arrangements either on their own or in collaboration with others, including our competitors.

In addition, we are currently expanding our manufacturing capabilities at Rochester to manufacture Dipentum® and to include bioanalytical testing, and are increasing our sales and marketing organizations as our new products, such as Dipentum®, come onto the market. Our future success, consequently, will depend on the success of this expansion at Rochester and our ability to compete with other pharmaceutical and biotechnology companies where we choose to commercialize our product candidates using our own sales and marketing capabilities. These companies may have greater sales and marketing resources at their disposal. In the event we continue to require additional manufacturing, marketing and sales services, our success will also depend on our ability to negotiate alliances for such services, and upon the efforts and skills of the other parties to such alliances.

Our Sales and Income Are Dependent On a Relatively Small Number of Products. As is common with many pharmaceutical companies, our results are strongly influenced by a relatively small number of products and royalties, in particular, Tussionex®, methylphenidate (including Metadate® CD), Delsym®, Dipentum®, Perenterol®, Coracten® and products from which we receive royalty revenues such as Remicade, Rituxan®, Herceptin®, ReoPro®, Asacol® and Pertactin. A deterioration in the competitive position of any of our more important products due, for example, to the launch of a generic competitor, unanticipated adverse events with our products or a similar competitor product, or a withdrawal of the marketing authorization for any of these products, could materially adversely affect our future results. Generic competition for products that do not have patent protection can arise with little or no notice which makes it difficult to anticipate the timing and impact of the introduction of generic competition. For instance, the FDA approved the marketing of generic products in December 2003 that have resulted in significant competition to our product Zaroxolyn®. Furthermore, for our existing royalty income streams we are unable to materially influence the level of marketing and promotion that is undertaken to support the product or the levels of inventories held by wholesalers, and these products may become eclipsed by new products.

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We May Encounter Unexpected Difficulties in the Design and Construction of Production Facilities and the Scale-Up of Production to Viable Commercial Levels. In order to manufacture a product candidate commercially, we require access to large scale production facilities. A third party manufacturer engaged by us, or in some cases we ourselves, may encounter unexpected difficulties in the design and construction or adaptation of production facilities and the scale-up of production to viable commercial levels. These difficulties could result in substantial additional costs or affect the commercial viability of a product candidate. We are particularly at risk of encountering these difficulties in the manufacture of biologicals, which are inherently more difficult to produce than chemical compounds, where we currently rely to a great extent on alliances with third party manufacturers.

Third-Party Reimbursement and Health Care Cost Containment Initiatives and Treatment Guidelines May Constrain Our Future Revenues. Our ability to market successfully our existing and future new products will depend in part on the level of reimbursement that government health administration authorities, private health coverage insurers and other organizations provide for the cost of our products and related treatments. Countries in which our products are sold through reimbursement schemes under national health insurance programs frequently require that manufacturers and sellers of pharmaceutical products obtain governmental approval of initial prices and any subsequent price increases. In particular, the prices we set for products sold in the UK depend to some extent on the reimbursement amounts set by the UK public health service and controls on profitability imposed by the UK government in respect of certain categories of products. In other countries, including the US, government-funded and private medical care plans can exert significant indirect pressure on prices. We may not be able to sell our products profitably if adequate prices are not approved or reimbursement is unavailable or limited in scope. Increasingly, third-party payors attempt to contain health care costs in ways that are likely to impact our development of products including:

- failing to approve or challenging the prices charged for health care products;
- introducing reimportation schemes from lower priced jurisdictions;
- limiting both coverage and the amount of reimbursement for new therapeutic products;
- denying or limiting coverage for products that are approved by the regulatory agencies but are considered to be experimental or investigational by third-party payors;
- refusing to provide coverage when an approved product is used in a way that has not received regulatory marketing approval; and
- refusing to provide coverage when an approved product is not appraised favorably by the National Institute for Clinical Excellence in the UK, or similar agencies in other countries.

Our Competitors May Have Greater Resources for Developing and Marketing Products and May Be Able to Develop Products that are Superior to Our Product Candidates or Launch Competing Products Before We Do. The pharmaceutical industry is highly competitive. We compete with pharmaceutical and biotechnology companies in the US, the UK, continental Europe and elsewhere for both our existing products and product candidates currently under development. Some of these companies have research, development, marketing, manufacturing, financial and human resources greater than ours. Competitors may develop and receive regulatory approval for a marketable product before we do. Competitors may also develop a product that is more effective or economically viable than our product candidates, rendering our products and/or product candidates obsolete. Competitors may be able

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to better promote their products by devoting greater marketing and sales resources to their products, capturing greater market acceptance than our products. We will face increased competition in the future as new companies enter our markets and alternative drugs and technologies become available.

If We Fail to Obtain Adequate Intellectual Property Rights for our Product Candidates, Competitors May Be Able to Take Advantage of Our Research and Development Efforts. We May Also Be Subject to Claims of Intellectual Property Infringement by Third Parties. Our success will depend, in large part, on our ability to obtain and maintain patent or other proprietary protection for our technologies, processes and products. If we are not able to obtain patent protection for our products or secure patents that are sufficiently broad in their scope, competitors may take advantage of our research and development efforts.

Litigation over patents and other intellectual property rights is not unusual in the biotechnology and pharmaceutical industries. Legal standards relating to the validity of patents covering pharmaceutical or biotechnological inventions and the scope of claims made under such patents are still developing and may vary substantially in different geographic territories. There is no consistent policy regarding the breadth of claims allowed in biotechnology patents. The patent position of a biotechnology company often is highly uncertain and may involve complex multi-party contractual arrangements and legal and factual questions.

Competitors may develop substantially equivalent processes or products or gain access to our technologies. We may have to initiate litigation to enforce our patent and license rights. If our competitors file patent applications that claim technology also claimed by us, we may have to participate in interference or opposition proceedings to determine the priority of invention. An adverse outcome could subject us to significant liabilities to third parties and require us to cease using technology owned by, or to license disputed rights from, third parties.

Our success also depends on our ability to operate without infringing the proprietary rights of third parties. If infringement occurs, we may have to develop an alternative technology or process or reach an agreement for the license of the necessary rights from the third party. Should this be necessary, we may not be able to obtain or develop those technologies or obtain those licenses or commercially viable terms or at all, and as a result, may be unable to develop and market our product candidates.

We Face Product Liability Risks and May Not Be Able to Obtain Adequate Insurance. The testing, marketing and sale of our products involve significant potential product liability risks. We may be held liable for damages for product failures or adverse reactions resulting from the use or misuse of our products. Our existing product liability insurance may not provide adequate coverage against product liability claims. From time to time, we may not be able to obtain insurance on acceptable terms and any insurance we do obtain may not provide adequate coverage against claims asserted. Since September 20, 2001, we have been required to increase our level of self-insurance in respect of methylphenidate. In addition, we have established our own captive reinsurance company to assist in the management of the methylphenidate related insurance. See Item 8 Financial Information Legal Proceedings .

Announcements, Developments and/or Regulatory Changes in the Biotechnology Sector May Cause Our Share Price to Fluctuate. The market price of our ordinary shares and our ADSs may be affected by events outside our control, including announcements from or about other companies in the biotechnology sector. External factors that could cause our share price to fluctuate in the future include:

announcements by other biopharmaceutical companies of clinical trial results and other product developments;

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adverse developments in the protection of intellectual property or other legal matters;

announcements in the scientific and research community including, but not limited to, new information regarding the validity of a particular therapeutic approach, unintended side effects of our products, product candidates or similar third party products, or new information regarding one or more of our technology platforms, or similar third party technology platforms;

adverse publicity and public perception about the risks and benefits of biotechnology products generally and, in particular, about the unintended side effects that they may have;

changes in treatment recommendations or guidelines by government agencies, private health organizations or science foundations;

regulatory changes that affect our products; and

changes in third-party reimbursement policies or in medical practices.

Foreign Exchange Fluctuations May Adversely Affect Our Earnings. In the 12 months ended December 31, 2003, 69% of our consolidated net revenues was denominated in US dollars. The percentage of US dollar denominated revenues may increase in the future; however, we report our results in sterling. Therefore, changes in the relation of sterling to the US dollar will affect our reported results of operations. A weakening in the value of the US dollar could reduce our reported earnings; we estimate that each $0.10 adverse movement versus the average 2003 rate of $1.64 will impact our reported profit by £5.0 million. We cannot, however, predict the effect of future exchange rates between sterling and the US dollar on our financial condition. 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 include hedging material surplus balances not denominated in the functional currency of the operating unit.

We May Encounter Difficulties In Securing Supplies of Key Raw Materials and Bulk Materials. We seek wherever commercially feasible to secure second source suppliers for key materials or to stockpile materials when shortages may arise. We have not, however, secured qualified second source suppliers or stockpiles in respect of key materials for all our products, and there can be no assurance that shortages will not develop or that prices for such materials will not increase in the future. We rely on third party manufacturers for the supply of US Drug Enforcement Administration(DEA) controlled substances, including methylphenidate. There can be no assurance that these third party manufacturers will receive annual renewals of their DEA registration as a bulk manufacturer of controlled substances, or that their assigned quota will be sufficient to meet our demand.

A Disruption to our Rochester Facility Could Materially Adversely Effect Our Business. The Rochester facility is the sole production site for several of our major products including Tussionex®, Zaroxolyn® and Delsym®, with sales of over £111 million in 2003. In addition, during 2003, the Rochester facility was established as a manufacturing source for Metadate® CD/Equasym® XL, and work is currently ongoing to establish Rochester as a source for Dipentum®. An interruption to manufacturing at Rochester due to regulatory matters, industrial action or for any other reason could have a materially adverse effect on our business.

We Could Be Subject To Warranty Claims Arising from Business Disposals. We have disposed of a number of businesses over the last few years. In connection with such disposals, we frequently provide warranties in respect of certain potential claims and risks related to the business being sold. Should a material warranty claim arise and be successfully claimed, our results could be materially impacted.

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Competition for Scientific and Managerial Personnel in Our Industry is Intense; We Will Not Be Able to Sustain Our Operations and Grow if We Are Not Able to Attract and Retain Key Personnel. Our success substantially depends on the ability, experience and performance of our senior management and our scientists and other key personnel. If we lose key employees, our business and operating results could be seriously harmed.

In addition, our future success will depend heavily on our ability to continue to hire, train, retain and motivate additional skilled managerial and scientific personnel. The pool of personnel with the skills that we require is limited. Competition to hire from this limited pool is intense.

We May Have Difficulty Successfully Integrating Acquired Businesses With Our Operations. From time to time, we may acquire businesses. We may not be able to successfully implement integration plans, dispose of certain non-core businesses, or profitably manage those new businesses. We may not realize the expected synergies of acquisitions.

Regulation by Government Agencies Imposes Significant Costs, is Time Consuming and Limits the Scope of Our Business Activities. The production and sale of pharmaceutical and biological products are highly regulated. Regulations can change significantly during the course of development of a product candidate, or following its approval by regulatory agencies, any such changes may, among other things, negatively impact our ability to manufacture our products cost effectively. Our ability and the ability of our partners to secure regulatory approval for our products and to continue to satisfy regulatory requirements will significantly influence our future success. We may not receive required regulatory approvals for our products or receive approvals in a timely manner. In particular, the US Food and Drug Administration (FDA) and comparable agencies in other countries, including the European Agency for the Evaluation of Medicinal Products and the Medicines and Healthcare Products Regulatory Authority in the UK, must approve human therapeutic, preventive and diagnostic products before they are marketed. This approval process can involve lengthy and detailed laboratory and clinical testing, sampling activities and other costly and time-consuming procedures. While the time required to obtain approval varies, it can take several years. Delays in obtaining or the failure to obtain regulatory approvals or the restriction, suspension or revocation of regulatory approvals could adversely affect the marketing of products and our ability to receive product revenues or royalties. We may not be able to obtain the necessary approvals for clinical testing or for the manufacturing and marketing of any products that we develop. Regulatory developments with similar competing products or product candidates may have an adverse impact on our own products or product candidates.

We are also subject to ongoing regulatory review. Discovery of previously unknown problems with a product, manufacturer or facility or other violations of regulatory requirements may result in fines, suspensions of regulatory approvals, operating restrictions, product recalls and criminal prosecution.

Our product methylphenidate is classified as a Schedule II controlled substance. Its production is strictly regulated by the DEA. Each year the DEA allocates the total national production (by kilogram of annual production) of drugs in this category based on anticipated demand by assigning quotas to producers licensed by the DEA. We are reliant on third party manufacturers for the supply of bulk methylphenidate products and consequently on their ability to secure an adequate annual quota from the DEA to supply ours and other customers needs. Our product Tussionex® is classified as a Schedule III controlled substance. The distribution, receipt and usage of its active ingredient hydrocodone are also regulated by the DEA s quota system. Failure to obtain annual renewals of our DEA registration as a dosage form manufacturer of Tussionex® and methylphenidate or being prohibited by the DEA from continuing to manufacture and sell either of these products would have a material adverse effect on our operating results. See Item 4 Information on the Company Business Overview Government Regulation .

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US Persons Owning Celltech ADSs May be Subject To Certain Restrictive US Securities Laws. US securities laws may restrict the ability of US persons who hold our ADSs from participating in certain rights offerings, share dividends or other transactions involving our securities which may occur in the future.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

We were incorporated in England and Wales under the Companies Act 1985 on August 28, 1987 as a private company with the registered number 02159282 under the name of Celltech Group Limited. By special resolution dated September 3, 1987, we were re-registered as a public limited company and became Celltech Group plc. We subsequently changed our name to Celltech plc in 1997, and to Celltech Chiroscience plc in July 1999. By special resolution dated December 15, 1999, we changed our name back to Celltech Group plc. Our registered office is 208 Bath Road, Slough, Berkshire SL1 3WE, England. Our telephone number is 011-44-1753-534655.

We were founded in 1980 as a result of a British government initiative to compete with the burgeoning American biotechnology industry. In our early years, we pioneered antibody chimerization, humanization and bulk manufacture, and later, developed technologies, including PEGylation, that can be used to produce antibody-derived drugs. Today, we are one of the largest European-based biopharmaceutical companies, possessing significant discovery and development capabilities, a broad product pipeline, and an international pharmaceutical business which includes US and European operations.

On May 18, 2004, the boards of Celltech and UCB S.A., a company organized under the laws of Belgium, announced that they had agreed to the terms of a cash offer by UCB for the entire issued and to be issued share capital of Celltech. The offer values our entire issued and to be issued share capital at approximately £1,530 million. The offer is currently scheduled to remain open until June 17, 2004 (unless thereafter extended by UCB or pursuant to applicable UK or US securities laws). Consistent with advice obtained from our financial advisors, Morgan Stanley and JP Morgan, our board of directors deems the offer to be fair and reasonable and has unanimously recommended that all shareholders accept the offer. There can be no assurances, however, that UCB will acquire shares pursuant to the offer as it is subject to several conditions including that the offer shall have been accepted in respect of at least 90% of Celltech s share capital.

Our growth to date is underpinned by our strengths in discovery and development. These strengths have enabled us to build an extensive and innovative pipeline that includes a number of treatments for serious diseases. In addition, we have grown through three sizeable acquisitions.

The first, a merger with Chiroscience plc, was completed in September 1999. Its central rationale was to create a discovery and development organization possessing a wide repertoire of key technologies and a critical mass that would enable us to be competitive with leading biopharmaceutical companies. It also permitted valuable discovery synergies to be accessed, through the complementarity between our antibody technologies and Chiroscience s small molecule and genomics expertise.

The second, the acquisition of Medeva PLC, was completed in January 2000. Medeva was engaged in the development, manufacture, distribution and marketing of prescription and over-the-counter pharmaceutical products. The acquisition coupled our discovery and development pipeline with a profitable cash-generative pharmaceutical business, to create an integrated international biopharmaceutical company.

Prior to the acquisition of Medeva, our strategy had been to license our products to other pharmaceutical companies, who would share development costs and be responsible for manufacturing and

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marketing. This meant that we typically retained only a limited portion of profits from the products we were developing. While some products, particularly in the general practice area, continue to be developed with third party pharmaceutical partners, the acquisition of Medeva continues to enable us to commercialize on our own or jointly a number of key products from our development pipeline and thereby retain a greater proportion of the potential future profits.

The ultimate objective of our acquisition of Medeva was to build an internationally competitive, fully integrated, biopharmaceutical company. The combined business expertise spans the pharmaceutical value chain, from drug discovery, through early and late stage development, to an international marketing capability and infrastructure.

The third was a cash offer for the entire issued share capital of Oxford Glycosciences PLC (OGS) that became effective on April 14, 2003. OGS was a leader in the field of human glycobiology, which is the study of the structure and functions of carbohydrates, the processes by which carbohydrates are formed and destroyed in the human body, and the biological processes in which they participate. OGS has also built an extensive database of novel protein disease targets, particularly in the area of oncology, along with an intellectual property estate relating to these disease targets.

We believe the acquisition of OGS will give us the ability through use of our various antibody and small molecule technology platforms to exploit certain novel protein disease targets patented by OGS. In addition, we believe the integration of OGS bio-informatics capabilities will expand our own capabilities in this area.

Following the transactions with Chiroscience and Medeva, we targeted for divestment five businesses which were not considered core activities in relation to our long-term strategy. This disposal program, which commenced in 1999 and concluded in the first half of 2001, realized total proceeds of £170.4 million including £33.6 million in convertible loan stock and deferred consideration. The total disposal program permitted us to focus our resources upon our research and development programs and upon developing our profitable cash-generative pharmaceutical operations in the US and Europe.

The integration of the former Chiroscience and Medeva operations with ours was completed in 2001. The integration program comprised a review and rationalization of the combined development portfolio, a restructuring of management and the integration and streamlining of central and corporate functions.

The integration of the OGS operations with ours was completed in November 2003. In connection therewith, we undertook a substantial restructuring of our business, including closure of certain activities and facilities, with associated redundancies. At the time of its acquisition, OGS had net cash and liquid resources of £126.6 million. The costs of restructuring and cash outflows relating to discontinued activities during 2003 amount to £20.2 million, which, together with the anticipated cash inflows and outflows during 2004, is expected to meet our goal of a broadly cash-neutral acquisition of valuable assets. We recorded exceptional restructuring costs, mainly relating to staff redundancies and costs of discontinued projects, of £4.5 million in 2003.

In February 2001, we licensed Abgenix s SLAM technology for $17 million (£11.8 million) in cash. In July 2001, we entered into a collaboration with NeoGenesis, Inc., which involved a $10 million (£7 million) equity investment by us. Our acquisition for £31 million in October 2001 of Thiemann SA, a German sales and marketing business, was an important step in building a pan-European pharmaceutical organization. The Thiemann acquisition provides us with a sales and marketing organization in Germany, the largest European Union market.

In March 2001, we entered into an exclusive worldwide development and marketing agreement with Pharmacia (now Pfizer) regarding CDP 870. Before the termination of this agreement by

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Pfizer in December 2003 we had received $60 million of cash pursuant to these arrangements. In May 2004, we announced that we had entered into a new collaboration agreement for CDP 870 with UCB. This agreement is not conditional upon the success of the offer for all the issued and to be issued share capital of Celltech.

In July 2002, we entered into arrangements with Pharmacia Corporation to access its product Dipentum®, which is marketed as a treatment for ulcerative colitis, an inflammatory bowel disorder, in the US and European markets. The European product rights were acquired outright for $20 million. The agreement for the US rights originally provided us with exclusive sales, marketing and distribution rights until January 2005 at which time we could acquire the product outright at our option for $5 million. We entered into an amendment to the US rights agreements with Pharmacia in April 2004 pursuant to which the exercise date for the option to acquire the product outright was accelerated to the date of signing of the amendment. We exercised our option as of such date. In connection with the Dipentum® agreement, we established specialist gastroenterology sales forces in the US and Europe. It is intended that these sales forces will ultimately market CDP 870 in Crohn s disease alongside Dipentum®. Pharmacia was acquired by Pfizer, effective April 16, 2003. Other than pursuant to the amendment accelerating the US option purchase, the terms of this agreement are unchanged following Pfizer s acquisition of Pharmacia.

We intend to devote significant resources to enhancing our capability to market or co-market specialized hospital products, if successfully developed and launched, including CDP 870 in Crohn s disease.

In anticipation of the launch of Metadate® CD in mid-2001, the US sales force was expanded in order to maximize the market opportunity offered by this product. Following an appraisal of in-market performance of Metadate® CD, we significantly reduced the level of detailing for this product, which resulted in the US general sales force being reduced from 350 to 170 representatives during the third quarter of 2002. The restructured sales force will continue to detail our cough/cold range of products (including Tussionex® and Codeprex® which we intend to launch in the third quarter of 2004), and will support Metadate® CD, which is promoted predominantly to pediatricians and child psychiatrists. Since the sales force restructuring, Metadate® CD has made a positive financial contribution to the business. In addition, the US gastrointestinal sales force established in January 2003 which consists of 30 representatives will continue to promote Dipentum® and establish important relationships in advance of commercialization of CDP 870.

We expanded our European sales and marketing capabilities with our September 2001 acquisition of Thiemann and in 2002 through the opening of an office in Copenhagen, serving the Nordic region. In support of our plan to reduce the number of general representatives and strengthen our specialist-focused organization, during the first half of 2003 we restructured our UK, French and German sales and marketing organizations to focus solely on specialist promotion. A similar restructuring of the Spanish sales force is expected to be completed in the first half of 2004. In total these restructurings have resulted in a reduction of approximately 150 positions and have given rise to an exceptional charge of £9.0 million.

In October 2003, we licensed European sales and marketing rights to Xyrem® (sodium oxybate) oral solution from Orphan Medical, Inc. Orphan Medical received US FDA approval in July 2002 to market Xyrem® as a treatment for cataplexy in patients with narcolepsy. We filed a Xyrem® marketing authorization application for the cataplexy indication in Europe in early 2004 which was accepted for review by the European Medicines Evaluation Agency at the end of the first quarter of 2004. Upon approval, which we anticipate to receive in 2005, we will use our specialist sales forces to market the product to the target audience of neurologists and sleep specialists. Under the terms of the license agreement, we will be responsible for the registration, sales and marketing of Xyrem® in Europe. We made an upfront payment of $2.5 million to Orphan Medical and will make further payments of up to $6 million tied to product development milestones and up to $7 million tied to sales-related milestones. We

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will also pay Orphan Medical a royalty on sales of the product. The licensing agreement includes the use of Xyrem® in narcolepsy and provides us with rights to negotiate in regard to other potential future indications for Xyrem® including fibromyalgia syndrome.

In support of our corporate objective of enhancing our oncology research activities as a strong second franchise alongside our existing research in immune disorders and inflammatory diseases, we adopted a number of OGS s established oncology research programs within our own pipeline. We anticipate that the most advanced of these programs will yield antibody development candidates within two years.

Our principal capital expenditure project undertaken during the last three years related to our research facility at Granta Park, Cambridge, England, which our research and development group took possession of in June 2000. Expenditures for this research facility totaled £9.1 million and the project was completed in 2001. Costs included £6.9 million on the building, £1.5 million of laboratory equipment and £0.7 million of office and information technology equipment. During 2002, £0.9 million (2001: £3.1 million, 2000: £4.5 million) was also invested to upgrade and validate our US manufacturing facility in Rochester, New York. In March 2001, we opened new corporate headquarters in Slough. Fit out costs totaled £2.5 million (2001: £1.6 million; 2000: £0.9 million). We also undertook a program of refurbishing the laboratories at our research facility in Slough. Capital expenditure during the 2002 year totaled £11.8 million, relating predominately to upgrading laboratory and manufacturing facilities and enhancing equipment and information technology.

Our total capital expenditures in 2003 of £16.2 million took place principally on the UK research and development facilities base in Slough (£7.7 million), the Ashton manufacturing site (£1.3 million) and the Rochester manufacturing site (£3.1 million). Additionally, we acquired during the year a property from Dr. Ando in a related party transaction for £1.2 million. See Item 7.B. Major Shareholders and Related Party Transactions - Related Party Transactions. Of the total expenditure of £16.2 million, £1.2 million was accrued at the year end relating to spending at Slough and Ashton.

Our total capital expenditure budget for 2004 is £20.0 million (£21.2 million including accrual from 2003) which we anticipate funding from our internal resources.

In order to maximize efficiency within the US manufacturing operations during 2003 we closed our California manufacturing facility, which produced various methylphenidate products. Production associated with the tableting and packaging of these products was transferred to the Rochester site. Bulk manufacture of the active compound will be sourced from a third party once the existing stocks of raw materials are exhausted.

In order to rebalance resources between our research and development activities, we closed our novel target discovery facility in Seattle at the end of 2003, with certain key activities being transferred to other sites.

B. BUSINESS OVERVIEW

We are one of the largest European-based biotechnology companies. We possess significant discovery and development capabilities, a broad product pipeline, and an international pharmaceutical business, which includes US and European operations. We derive revenues from the licensing of our technologies and products and the sale of pharmaceutical products through our international pharmaceutical business.

Our discovery and development activities are focused on developing treatments for autoimmune and inflammatory disorders and oncology. We are expanding our expertise into new disease areas, in particular through our growing research pipeline in multiple sclerosis, systemic lupus erythematosus and psoriasis. In addition, we continue to build our oncology resources and are developing

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a range of approaches, primarily addressing the significant unmet need in the treatment of solid tumors. We entered four new products into Phase I clinical development during 2003, with a further product transitioned into preclinical development. Our pipeline includes product candidates comprising new chemical entities and antibody-based therapeutics, which are in pre-clinical or clinical development or marketing license registration. Our technology base includes a leading position in antibody engineering and extensive medicinal chemistry capabilities.

Our strategy includes partnering where appropriate to access particular discovery, development or commercialization capabilities and to reduce the risk inherent in pursuing a broad pipeline of novel therapeutic products. We have a range of discovery, development and commercialization collaborations with leading pharmaceutical and biotechnology companies including: Abgenix, Amgen, AstraZeneca, Biogen Idec, Johnson & Johnson, Merck, NeoGenesis, Orphan Medical, Seattle Genetics and Wyeth.

Our technology licensing income is derived primarily from our antibody engineering license revenues and technology portfolio. See Intellectual Property and Item 8 Financial Information Legal Proceedings. New technology is patent protected where we believe it is in our commercial interests to do so. Some of our intellectual property is similar to or in conflict with intellectual property rights claimed by others. As a result, it may be necessary for us to challenge the validity of those rights or to negotiate license arrangements. See Item 3 Key Information Risk Factors ; and Item 8 Financial Information Legal Proceedings .

Our pharmaceutical business provides a steady revenue stream through the marketing of our existing portfolio and enables us to retain greater value from our product pipeline through the marketing or co-promotion of selected products in selected geographic territories. We restructured our US sales force during 2002, and in connection therewith, a new US gastrointestinal specialized sales force was created. In Europe during 2002 and 2003, the number of general representatives was significantly reduced while the specialist focused organization was strengthened.

We generated total revenue of £353.3 million for the year ended December 31, 2003, £329.6 million for the year ended December 31, 2002 and £303.1 million for the year ended December 31, 2001. No turnover has been consolidated in respect of OGS.

New Product Pipeline

Our product pipeline includes a number of candidates in preclinical development, clinical development or registration. We are building the capability in our pharmaceutical business to market or co-promote certain products targeted at specialized clinical indications whilst continuing to promote our cough and cold and ADHD products in the US. Other product candidates, particularly those aimed at indications treated in the general practice environment, or which require specialized development capabilities we do not possess, will continue to be partnered with major pharmaceutical or biotechnology companies. In addition, as part of our integration of OGS, we adopted within our own pipeline a number of oncology research programs in both the antibody and small molecule areas.

Our investment in continuing research and development amounted to £106.1 million in the year ended December 31, 2003. Our investment in research and development was £95.7 million in the year ended December 31, 2002 and £90.7 million in the year ended December 31, 2001.

Products awaiting marketing approval

Xyrem® In October 2003, we licensed European sales and marketing rights to Xyrem® oral solution from Orphan Medical. We filed a Xyrem® marketing authorization application for the cataplexy indication in Europe in March 2004, and expect to launch the product during 2005. Upon launch, we plan to use our specialist sales forces to market the product to the target audience of neurologists and sleep specialists.

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Equasym XL® We submitted an application for a marketing authorization in the UK for Equasym XL®, a once daily ADHD product, in July, 2003. We expect to launch the product in the UK during 2004. Following approval in the UK, we anticipate seeking additional approvals in other key European territories for a 2005 launch.

Codeprex® The new drug application for Codeprex® was submitted to the US FDA in May 2001 and the launch is expected in the third quarter of 2004.

Products in Registration or Clinical Development

Our pipeline contains the following products that are in registration or clinical development.

CDP 870 is our leading product using our proprietary PEGylated antibody fragment technology. We have been developing CDP 870, a humanized anti-TNFα antibody fragment, as a treatment for both rheumatoid arthritis (RA) and Crohn s disease. Until recently, CDP 870 was being developed through a collaboration with Pharmacia (now Pfizer). In February 2004 the rights to CDP 870 reverted to Celltech following Pfizer s decision to terminate our collaboration in December 2003. After engaging in discussions with third parties interested in collaborating with us on the development of CDP 870, we announced on May 18, 2004 that we had entered into a collaboration with UCB for the global research, development and commercialization of CDP 870. Our board of directors considered the terms of the proposed UCB collaboration to be the optimal route for development and commercialization of CDP 870 given the terms proposed, the strength of UCB s specialist sales network and the relevant expertise of UCB s senior management. This collaboration is independent of UCB s offer to purchase our share capital and will go forward even if the offer is not consummated.

Under the terms of this agreement, we granted UCB co-exclusive worldwide rights to develop and commercialize CDP 870. The license is exclusive for rheumatoid arthritis and other indications, excluding Crohn s disease. UCB will be responsible for the conduct of future clinical studies and all commercialization activities with CDP 870 other than in Crohn s disease, and will pay us a significant royalty on sales in these indications. UCB will also make progress-related payments to us dependent upon attaining certain project related milestones in addition to an up-front non-refundable signing fee. We have retained manufacturing rights and will supply CDP 870 material for commercialization, and will discharge all royalties due to third parties. We have retained exclusive rights for the development and commercialization of CDP 870 in Crohn s disease in North America, major European markets, Australia and New Zealand, with UCB having development and commercialization rights in other territories.

Following the announcement in February 2002 of positive Phase II data for CDP 870 in Crohn s disease, we carried out further analysis to identify the patient groups who might receive the most benefit from treatment. This resulted in the identification of C-reactive protein (CRP) as a marker identifying patients likely to respond, with those patients having elevated baseline CRP levels showing significantly enhanced treatment benefit. We discussed our Phase III plans with the FDA during the first half of 2003, and following a US investigator meeting held on November 22, 2003, commenced dosing of patients in the first of two pivotal Phase III studies on December 23, 2003. The program, termed PRECISE (PEGylated antibody Fragment Evaluation In Crohn s disease Safety and Efficacy), involves over 1300 patients in two studies, and will assess the ability of CDP 870 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 CRP levels in its primary endpoints. Crohn s disease will be the first regulatory submission for CDP 870, planned for 2005.

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Phase II data in RA presented in 2001 highlighted that CDP 870 has an efficacy and safety profile at the 400mg dose that is competitive with other anti-TNFα agents, with a convenient four-weekly subcutaneous dosing schedule. During the first half of 2002, Pharmacia (now Pfizer) developed a new lyophilized formulation of the drug, which is being used for the current Phase III studies and will be used for in-market supply. Following FDA review in July 2002 of this new formulation and the Phase II data and outline Phase III clinical plans, Pharmacia (now Pfizer) initiated Phase III dosing for RA in October 2002, triggering a $10 million milestone payment to us. The Phase III program, which is to involve approximately 1,500 treated patients, will investigate the safety and efficacy of CDP 870 as both a monotherapy and in combination with methotrexate (MTX) in patients with an inadequate response to MTX. Pfizer had commenced two Phase III studies with CDP 870 in RA, with further studies required for registration scheduled to commence in the second half of 2004. The two studies initiated by Pfizer, in which patients treated over a six-month period, evaluated the effect of CDP 870 on both signs and symptoms, using the American College of Rheumatology (ACR) clinical scoring system, and disease progression, using x-ray techniques to measure improvements in the rate of joint destruction. The study in which CDP 870 is being assessed in combination with MTX concluded in March 2004, and the preliminary results were positive. The study met its primary endpoint, as assessed by the number of patients achieving a 20% reduction in the ACR score (ACR20 response) at 24 weeks. A significant ACR20 response was seen at week one in the study, the first time point, and was maintained for the duration of the study. The profile of adverse events in the study was consistent with those seen in previous studies with CDP 870. We intend to submit the detailed results from the study for presentation at a future major scientific meeting. The second study in which CDP 870 is being assessed as a monotherapy is due to conclude in the second half of 2004. The majority of patients from these two studies have opted to continue treatment with CDP 870 in a long-term safety open label extension study.

A further trial required for registration of CDP 870 in RA, designed to assess the impact of CDP 870 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 Pharmacia (now Pfizer), this third trial has now been rescheduled to commence in the second half of 2004, facilitating an anticipated 2006 regulatory filing in this indication. We are currently finalizing plans for this study, which will be conducted by our new collaboration partner, UCB.

From our now terminated collaboration with Pharmacia (now Pfizer) we received milestone payments of $60 million. We co-funded obligations for the development of CDP 870 in RA above an agreed threshold, which was triggered in the first half of 2003. Our co-funding obligations totaled £12.1 million in 2003. As required by the termination provisions of our agreement with Pharmacia (now Pfizer), Pfizer returned all information relating to CDP 870, and provided certain transitional services. Under the provisions of the agreement, Pfizer s sole residual interest in CDP 870 is the retention of its 20% share of profits from sales in Crohn s disease.

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

The Phase III studies also confirmed that CDP 571 had low immunogenicity and an excellent safety profile, with no significant differences in adverse events between the treated group and those taking the placebo. Following the publication of the study results, we assessed the commercial opportunity with CDP 571, including its potential use on a named-patient basis in the European Union, and decided in the first half of 2003 to cease further development of this product.

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PDE4 Phosphodiesterase 4 (PDE4) is a key mediator of underlying inflammation in a number of diseases, including respiratory disorders such as asthma and chronic obstructive pulmonary disorder (COPD). Inhibition of PDE4 enzyme by an orally available small molecule product represents a potentially important therapeutic advance in the treatment of these diseases. PDE4 is being developed in collaboration with Merck.

On April 25, 2003 we were informed that Merck had discontinued Phase II studies of the lead compound in this collaboration. However, Merck is continuing its research in the field of asthma and COPD through the ongoing study of other PDE4 inhibitors. The timing of the development of these other molecules is not certain. In the last quarter of 2003 Merck exercised its option to extend the development period for PDE4. The exercise of this option enables Merck to maintain exclusive access to our PDE4 intellectual property estate, which we licensed to Merck as part of our collaboration in 1994. Pursuant to this, Merck made a £0.5 million milestone payment to us in October, 2003.

CDP 860 CDP 860, a humanized antibody fragment targeted against the PDGFβ receptor, recently completed a small Phase II proof of concept study to determine whether it is able to increase the permeability of tumors, which may facilitate an increased uptake of chemotherapeutic agents, thereby increasing their effectiveness. The effects observed in this study, in which a single dose of CDP 860 was administered to patients with colorectal and ovarian cancer, were consistent with the proposed mechanism of action and confirmed the potent biological activity of this molecule. The side effects observed in this study, including reversible edema, were also consistent with the mechanism of action.

Following the completion of the study and initial discussions with a number of potential collaborators, we decided in February 2004 to terminate this program as we were unable to elicit any firm interest in the exploration of CDP 860 alongside existing chemo-therapeutic regimes.

BMS-275291 Our partner, Bristol-Myers Squibb Company, has been evaluating this selective matrix metalloproteinase inhibitor in a large Phase II study in non-small cell lung cancer (NSCLC) in combination with Taxol® (paclitaxel) and Paraplatin® (carboplatin). Following a planned interim analysis, we and Bristol-Myers Squibb were informed by the Data Safety Monitoring Committee that BMS-275291 was unlikely to reach its pre-determined efficacy endpoint. Accordingly, in the third quarter of 2003 the study was terminated and treatment was discontinued in nearly all patients. Bristol-Myers Squibb does not plan to develop BMS-275291 further in this indication.

Products In Preclinical Development/Human Dosing Phase I

CDP 323 We have been researching for a number of years the utility of α4 integrin inhibitors as improved disease modifying drugs that are potent anti-inflammatory agents, but which lack the adverse long-term side effect profiles of existing drugs. α4 integrins are involved in the recruitment of leucocytes to areas of inflammation such as those found in joints, central nervous system and gut, highlighting the potential utility of this class of drugs in treating RA, IBD and MS.

During 2002 we entered CDP 323, an orally active inhibitor of α4-integrins, into preclinical development. This potent inhibitor has a preclinical profile consistent with once- or twice-daily dosing, and has shown encouraging therapeutic activity in inflammatory disease models. We are currently completing Phase I studies in healthy volunteers designed to assess the safety and bioavailability of CDP 323. This study also incorporates biochemical measurements to provide evidence of pharmacological activity. Assuming a positive outcome from these studies, we will initiate the first Phase II study in RA patients with CDP 323 in the second half of 2004. A competitor antibody approach has demonstrated encouraging efficacy in both IBD and MS, and we currently evaluating the optimum development strategy for further studies in these indications.

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CDP 484 Interleukin-1β (IL-1β) is a cytokine associated with pain, joint destruction and inflammation. In models of arthritis, antibodies to IL-1β have shown significant therapeutic effects on both clinical scores of inflammation and joint erosion in established disease. Antibodies targeting IL-1β may therefore have the potential to offer the anti-inflammatory activity of other anti-cytokine approaches with enhanced joint protection properties.

We entered a high-affinity anti-IL-1β PEGylated humanized antibody fragment, CDP 484, into preclinical development in late 2001. The product is expected to have similar dosing characteristics to CDP 870 which is expected to overcome the pharmacokinetic limitations of some competitive approaches in this area. The first clinical indication will be rheumatoid arthritis, where the efficacy of CDP 484 will be explored in a broad cross section of patients with active disease. During 2003, CDP 484 was entered into a Phase I/II study in RA patients. This study is primarily designed to assess the safety of ascending doses of CDP 484, but will also provide information on the impact of CDP 484 on signs and symptoms of disease, using the standard ACR scoring system. This study is expected to conclude in late 2004.

CDP 791 It is believed that antibodies blocking receptors for certain growth factors will be potent inhibitors of angiogenesis, with potential utility for treatment of a broad range of solid tumors when used in combination with existing chemotherapeutic regimes. CDP 791 is a very high affinity PEGylated humanized antibody fragment targeted against a key growth factor receptor. CDP 791 entered a Phase I study in patients with a range of advanced solid tumors that have failed to respond to standard treatments. This study is designed to confirm both the safety of ascending doses of CDP 791 and also provide evidence of pharmacological activity through the use of MRI to determine the effect on blood flow into tumors. Results from this study are expected during the second half of 2004.

CMC-544 Through our collaboration with Wyeth, we are developing CMC-544 encompassing antibodies to selectively deliver a potent cytotoxic drug, calicheamicin, to tumors. This collaboration has already yielded the FDA approved drug, Mylotarg, a treatment for acute myeloid leukemia. CMC-544 utilizes the same technology platform as Mylotarg, and comprises a humanized 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 our collaboration, Wyeth funds the majority of clinical trial costs for CMC-544, and we receive a royalty on future sales of the product if successfully commercialized.

CDP 923 is a second-generation product for the treatment of certain inherited storage disorders (Zavesca® is the first generation product). We inherited this product (formerly named OGT-923) from OGS and are conducting a Phase I multiple dose study in healthy volunteers which aims to confirm findings from the previous Phase I single dose study that this compound lacks the gastrointestinal toxicity seen with Zavesca®. We are currently evaluating the optimum development route for this compound for entry into Phase II studies.

Research and Discovery

Our research strengths span a broad range of drug discovery capabilities, from target validation to non-clinical/pharmacology studies. With the closing of the Seattle (US) facility in early 2004, we now have three research centers: Cambridge (UK), Oxford (UK) and Slough (UK). We employ approximately 420 research scientists, who support both small molecule and antibody-based therapeutic programs.

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The acquisition of OGS during 2003 substantially expanded our oncology efforts and after assessing the projects inherited with the OGS acquisition we decided to retain approximately 40 research staff to work in the oncology area.

In 2003, we entered four novel compounds into clinical development: CDP 484 and CDP 323 for inflammatory disease and CDP 791 and CMC-544 for cancer.

Key Research Activities and Therapeutic Focus

Our discovery technologies include (i) antibody humanization, engineering and expression, based mainly in Slough; and (ii) medicinal chemistry, coupled with computer-aided drug design, carried out in both Cambridge and Slough. Employing those technologies, our therapeutic focus continues to be in inflammatory and autoimmune diseases and cancer. Our portfolio includes both antibody-based programs and small molecule approaches.

Medicinal chemistry combines traditional chemical synthesis, parallel synthesis and computational chemistry techniques with a knowledge-based design approach to generate broad areas of patented proprietary chemistry. DMPK (drug metabolism and pharmacokinetics) processes are incorporated into programs at an early stage to ensure maximum efficiency. Our antibody expertise also makes a significant contribution to our new chemical entity, or NCE, programs during target and assay validation.

We focus our NCE programs on drug target families including kinases and G-protein coupled receptors (GPCR) to provide synergy between programs and an increasing knowledge base for lead identification, drug design and target selection.

Therapeutic Antibodies and Biologicals. Our discovery efforts continue to focus on antibodies as therapeutic agents. In addition, the microbial expression and PEGylation of antibody fragments lends itself to a range of opportunities for novel antibody products.

We receive royalties on several patented and proprietary technologies, including the Boss technology, related to antibody engineering and antibody production. Over 50 licenses to these patents and technologies have been granted to date, generating a substantial royalty stream for us from products currently on the market. In December 2001, we resolved the challenge by Genentech to our former Boss US patent. The settlement with Genentech involves the payment to us of compensation in terms of income from sales of products which would otherwise have been covered under the Boss US patent. See Item 8 Financial Information Legal Proceedings .

Antibody Expression. Realization of the full potential value of therapeutic antibodies depends on the ability to render chronic treatments commercially tractable. Currently, cost, availability and manufacturing capacity can create a barrier to the chronic usage of many standard antibody-based therapeutics. To better address chronic disease markets we have developed a proprietary system for microbial production of antibody fragments, along with site-specific PEGylation of these fragments, which we believe overcomes these capacity barriers. The system has the advantage of using established technology components with a history of regulatory acceptance. A range of antibody fragments can be produced with this technology which allows us to tailor the molecule to the therapeutic setting.

The technology process is applied to a range of humanized antibodies (antibody fragments) and has in all cases given high antibody titres in large scale fermentation. Antibody is produced in fed batch fermentation using defined medium and does not require antibiotic selection during fermentation (however, antibodies are used in the seed flasks). The patented primary recovery and purification processes are free of affinity purification steps allowing scalable low cost purification. Both the fermentation and purification systems have successfully been used in large scale GMP production runs by a manufacturing contractor.

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In March 2002 we announced our multi-year manufacturing agreement with BioReliance Corporation in which BioReliance will manufacture and supply clinical scale, GMP-grade, antibody fragment-based drugs to us. Currently manufacture is at a 1,000 litre scale, ordered on a two-year rolling forecast basis.

On March 7, 2003 we gave notice terminating our commercial supply agreement with Lonza Biologics Plc (Lonza) for the humanized anti-TNFα antibody CDP 571 under terms which provide that no termination fee is payable. Lonza disputed our basis for termination, however, in July 2003 we reached a settlement releasing us from any further obligations to Lonza under the commercial supply agreement.

In July 2003, we entered into a long-term supply agreement with Lonza, under which Lonza will manufacture PEGylated antibody fragment-based drugs for us at its microbial production facility. Under the terms of the agreement, we have reserved at Lonza a fixed annual manufacturing capacity in its 1,000 litre and 15,000 litre fermenter systems for recombinant microbial products, covering the period 2004 to 2010, at pre-agreed rates. The agreement allows us flexibility in scheduling to meet the clinical timelines for our portfolio of PEGylated antibody fragment-based development products. Lonza will provide technology transfer, scale-up, cGMP manufacturing and quality control testing services at its site in Visp, Switzerland.

We have also entered into a long-term agreement with Sandoz (formerly Biochemie GmbH), a subsidiary of Novartis AG, under which Sandoz will manufacture PEGylated antibody fragment-based drugs for us (including CDP 870). Under the terms of this agreement, we have reserved at Sandoz a fixed annual manufacturing capacity in its 3,000 litre and 13,000 litre fermenter systems for recombinant microbial products, covering the period 2004 to 2010. We have potential minimum take or pay obligations under this agreement of approximately £41 million over the life of the contract. As is the case with the Lonza supply agreement, this agreement allows us flexibility in scheduling to meet the clinical timelines for our portfolio of PEGylated antibody fragment based development products. Sandoz will provide technology transfer, scale-up, GMP manufacturing and quality control testing services at its site in Kundl, Austria.

A CDP 870 manufacturing agreement is also in place with Sandoz which was returned to Celltech following the termination by Pfizer of the CDP 870 agreement. This contract in contrast to the above is not a fixed take or pay but is based on a forecasting mechanism which only becomes a firm commitment in the 12 month horizon. The payment schedule under this arrangement is on a per batch basis which equates to approximately £300,000 per week, index linked, for operation at 10kl vessel size.

In February 2004, we announced that we had entered into a collaboration with Biogen Idec for the research, development and commercialization of antibodies against the CD40 ligand (CD40L) protein for the treatment of autoimmune diseases. Under the terms of the agreement, both parties will contribute CD40L know-how. We will be responsible for the identification and engineering of new high affinity antibodies against CD40L and will pay all development cots until the end of Phase I human safety testing. For more information on this collaboration see this Item 4.B. Information on the Company-Business Overview-Research Collaborations-Biogen Idec.

Antibody Humanization. Novel antibodies are frequently generated from a non-human source, for example an immunized rodent. When administered to patients, such antibodies are normally recognized as foreign by the patient s immune system, resulting in an immune response which may both hamper the action of the antibody and produce undesirable side effects.

This issue can be addressed by antibody humanization. A process in which the antibody specificity and affinity is retained but in which all the sequences not involved in antigen binding are replaced by human sequences.

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SLAM Technology. In 2001, we licensed from Abgenix their SLAM (Selected Lymphocyte Antibody Method) technology. This technology is based upon the selection of B-cells from immunized or naive hosts, including humans, and the subsequent rapid screening of large numbers of antibody producing clones. SLAM allows us to rapidly identify very high affinity antibodies to a broad range of epitopes. We have combined the SLAM technology with our existing antibody technologies in order to expand the breadth of our antibody pipeline and extend our repertoire of drug targets. We have implemented the SLAM technology at our Slough research center for the selection of antibodies for development and for validation of new drug discovery targets.

Antibody Conjugation. Antibodies are frequently used to target effector molecules to specific sites or cells within the body.

In March 2002, we announced a multi-target collaboration with Seattle Genetics, Inc. to use Seattle Genetics antibody-drug conjugate technology with our antibody fragments directed against specific diseases, including immunological targets and cancer. Seattle Genetics will provide us with broad access to its antibody-drug conjugate technology for use with multiple target antigens. We will utilize this technology towards developing therapeutic antibody fragments linked to these toxic payloads to target and kill diseased cells. With the acquisition of OGS, we anticipate that using our existing technology, such as that described above, we can exploit novel protein disease targets identified and patented by OGS.

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

We are pursuing two distinct approaches to targeting the OX40 receptor illustrating the advantages of our flexible technology platform. The first approach is to develop a multi-valent antibody fragment capable of delivering a cytotoxic drug to OX40 receptor expressing cells and thus destroying them. The second approach involves a monovalent antibody fragment to block the interaction of OX40 with its natural ligand OX40L. This latter approach exploits the opportunities offered by using our fragment based antibody drug design, the monovalent Fab species, functioning solely as an antagonist. Our experience has shown that more traditional whole antibody approaches, while blocking the interaction with the natural ligand, can themselves function as agonists, and thereby exacerbate disease processes.

Anti-Sclerostin antibodies for bone disorders. Several years ago we identified a defect in the SOST gene which was shown to lead to extremely high bone density in a small population. The gene encodes a protein called sclerostin (formerly known as BEER). The goal of the program is to produce an antibody fragment capable of inactivating sclerostin in patients suffering from degenerative bone disorders such as osteoporosis. This type of therapy is expected to trigger increased deposition of high quality bone in these patients.

We entered a major collaboration with Amgen during 2002 aimed at identifying novel treatments for osteoporosis through inhibition of the protein sclerostin. This collaboration brings together our expertise in the sclerostin target and antibody generation with Amgen s experience in protein therapeutics and bone biology. Our SLAM technology has enabled us to generate high-affinity antibodies to this highly conserved target. This project is currently in the pre-clinical phase to select the most effective therapeutic antibody molecule, following which we and Amgen will generate a therapeutic antibody for entry into development. A number of key research milestones were met in this program in 2003. For more information on this collaboration see this Item 4.B.-Business Overview Research Collaboration .

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Early stage antibodies. We have a broad pipeline of antibody projects, reflecting a wide range of mechanistic approaches. In inflammatory disease, our research is focused upon critical components of the immune system such as T cells, B cells, dendritic cells and endothelial cells, in addition to cytokines and cytokine receptors. In oncology, we also have a number of active programs and are seeking further validated antibody targets. Our oncology research was substantially strengthened through the addition of new programs in 2003 that were inherited through our acquisition of OGS.

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

Through our collaboration with Neogenesis, we now have access to ultra high throughput screening technologies that we believe to be competitive with those of large pharmaceutical companies. This technology has become a key component of our small molecule research efforts, with progress having been made against a number of key disease targets during the year.

Integrin antagonists for inflammatory disease. For a number of years we have been making a substantial effort to identify α4 integrin antagonists. Encouraging results in both MS and IBD have been published with an antibody targeting α4 integrins, highlighting the commercial potential for low molecular weight, orally active integrin antagonists.

This research resulted in the adoption during September 2002 into the development pipeline of CDP 323, an orally active small molecule targeting both α4β1 (VLA-4) and α4β7 integrins. See this Item 4.B. Business Overview Products in Preclinical Development/Human Dosing Phase I CDP 323. Further efforts are ongoing in research to provide a structurally distinct back up program in addition to exploring the utility of these compounds in other inflammatory conditions such as MS and IBD.

Kinase inhibitors. We have built considerable expertise in kinase inhibitors, with an early success including the partnering of our KDR kinase program with Johnson & Johnson, who are engaged in lead optimization of potent, selective and orally active Celltech KDR kinase inhibitors as novel anti-angiogenic approaches for the treatment of cancer and diabetic retinopathy.

We also have a substantial in house program around the use of p38 MAP kinase inhibitors as novel anti-inflammatory treatments. p38 MAP kinase is an upstream component of the inflammatory pathway, leading to the production of pro-inflammatory mediators such as TNFα, IL-1β and COX-2. Our lead candidate, CDP 146, was entered into preclinical development during the second half of 2003, and subject to sufficient toxicology clearance, is planned to enter Phase I human safety trials during the second half of 2004, with the first Phase II study in RA scheduled to start during 2005. We are also pursuing a number of backup and follow up compounds, with the intention of entering a further candidate into pre-clinical development during 2004.

Aggrecanase inhibitors. In October 1995 we entered into a collaboration with Zeneca (now AstraZeneca) regarding the use of metalloproteinase inhibitors as potential treatments for osteoarthritis, in particular, inhibitors of metalloproteinases called aggrecanases that are capable of damaging the integrity of joint cartilage. Following better characterization of the metalloproteinases

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involved, AstraZeneca continues to screen both its own and our library of compounds for those with aggrecanse inhibitory properties. We will receive progress-related milestone payments and royalties on future sales of any products arising from this collaboration.

Other small molecule projects. We have an extensive portfolio of NCE programs, including several at a late stage, targeting key mediators of inflammation. We are also leveraging our library of kinase inhibitors as novel anti-proliferative approaches in oncology. The Neogenesis technology is being used alongside our existing small molecule capabilities in order to rapidly identify lead series of compounds.

OGS research activities. By the last quarter of 2003, we had integrated six novel oncology research programs of OGS and will continue OGS s drug discovery and development alliances with Medarex and BioInvent and a drug discovery alliance with NeoGenesis.

Disease target selection strategy for dual pipeline. Access to novel disease targets for both the antibody and small molecule pipelines is essential to maintaining a consistent flow of high quality drugs over the long-term. For our antibody pipeline, we had historically pursued in-house target discovery at our Seattle site with acquisition of licensing of targets from academic or industry sources. With the reorganization of our research and development operations in 2003, and the closing of the Seattle site, we ceased in-house target discovery activities and will concentrate our focus on in-licensing high quality targets from academic institutions and the biotechnology and pharmaceutical industry.

For the NCE programs, we carefully select targets within the program s key chosen protein families that have a high degree of disease validation. Our core therapeutic focus remains within the autoimmune and inflammatory disease area, with increasing preclinical specialization in RA and joint disease, IBD, MS and other autoimmune diseases. We are also selectively building the program s preclinical capabilities in oncology as a second area of focus and the integration of several OGS oncology research programs in 2003 has furthered this initiative.

Research Collaborations

Our total research and development expenditure during 2003 was £106.1 (2002: £95.7 million, 2001: £90.7 million). Our total external costs incurred (including costs incurred on collaboration projects) were £29.5 million during 2003 (2002: £24.5 million, 2001: £22.5 million). Our remaining costs relate to internal costs of research and development. During 2004, we expect to see an increase of 10-20% in expenditure on research and development, primarily as a result of the progression of CDP 870 in the Crohn s indication to final Phase III studies.

Our main research and development collaborations are set out below:

Biogen Idec

In February 2004, we announced that we had entered into a collaboration with Biogen Idec for the research, development and commercialization of antibodies against the CD40 ligand (CD40L) protein for the treatment of autoimmune diseases.

Under the terms of the agreement, both parties will contribute CD40L know-how.

We will be responsible for the identification and engineering of new high affinity antibodies against CD40L and will pay all development costs until the end of Phase I human safety testing.

Following completion of Phase I, Biogen Idec has an option to co-invest in the ongoing development of products. In this case, the companies will jointly develop and commercialize products

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and will share costs and profits. Alternatively, if Biogen Idec does not exercise its option, we may elect to take the program forward independently and continue to develop and market products on an exclusive, worldwide basis. Biogen Idec would then receive royalties based on sales achieved by us

Amgen (Sclerostin)

In May 2002 we entered into a collaboration arrangement with Amgen Inc for the research, development and global commercialization of novel treatments for osteoporosis, utilizing our proprietary antibody fragment technology.

We have identified a protein involved in the regulation of bone deposition. We believe that by inhibiting this protein known as Sclerostin, with a high affinity antibody fragment, bone loss in osteoporosis patients may be reversed. The key terms of the agreement with Amgen are as follows:

- Amgen receives exclusive worldwide rights to develop and market treatments targeting the Sclerostin protein.
- We will be responsible for the identification and engineering of high affinity PEGylated antibody fragments against the Sclerostin protein, using its proprietary antibody fragment technology.
- We will pay a proportion of all development costs up until the end of Phase II.
- Amgen will be responsible for worldwide development.
- At the start of Phase III, we have the option to co-invest in late stage development. If we elect this option, we will lead promotional activities in the European Union and Amgen will lead promotion in North America and Japan. Alternatively, at our option, Amgen will become the exclusive licensee for this program and will continue to develop and market products against the Sclerostin protein on a worldwide basis. We would then receive royalties based on sales achieved by Amgen.

The Sclerostin program is currently in late stage research, involving target validation and antibody generation activities. In total $3.5 million of milestones are payable to Celltech in the research phase. During 2003 $1.5 million of such payments were triggered. Since a development candidate has yet to be identified for this program, it is not possible at the current time to provide any reasonable estimate of potential future costs or income streams.

Seattle Genetics (Antibody drug conjugates)

In March 2002 we entered into a multi-target collaboration with Seattle Genetics Inc. to use their antibody drug conjugate technology with our antibodies or antibody fragments directed against specific diseases, including immunological and oncology targets. We are paying service and reagent fees and may additionally make progress-dependent milestone payments and pay royalties to Seattle Genetics on net sales of any resulting products.

We will be responsible for all costs associated with the development, manufacturing and marketing of any products generated as a result of this agreement.

No products are currently in development and thus it is not possible to provide any reasonable estimate of potential future costs or income streams. The level of ongoing service and reagent fees is not significant in the context of our overall external research and development expenditure.

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Abgenix (SLAM antibody technology)

In October 2001 we entered into an agreement with Abgenix Inc. to access their Selected Lymphocyte Antibody Method (SLAM) technology to increase the throughput and diversity of our antibody platform. The key elements of the arrangement are:

- $17 million license fee paid by us for access to the technology. This has been capitalized as an intangible asset.
- Abgenix grants us a non-exclusive license (with rights to sub-license) for use of SLAM technology in antibody selection.
- Abgenix grants us a co-exclusive license for use of SLAM technology in discovery of novel disease targets.
- Abgenix may elect to co-develop certain products arising from use of the SLAM technology.
- Royalties are payable to Abgenix on successful commercialization of any products derived using the SLAM technology.

The SLAM technology has been fully incorporated into our research operations. We have not made any further payment to Abgenix. No products arising from the technology are currently in clinical development. However, SLAM is being used in many of our pre-clinical antibody projects, and it is estimated that SLAM based development candidates may be nominated within one year.

NeoGenesis (Ultra high throughput screening technology)

In July 2001 we entered into a research collaboration with NeoGenesis Inc., a privately held biotechnology company based in Cambridge, MA. We provide disease targets against which NeoGenesis uses its proprietary automated ligand identification system (ALIS) technology to identify and optimize new chemical compounds as novel drug discovery leads against multiple disease targets within our core therapeutic areas.

We will be responsible for the commercialization of all products arising from the collaboration and will make royalty payments to NeoGenesis on sales of such products. The research term runs to December 31, 2005. During the research term, we are responsible for research funding. The cost of such funding in 2001, 2002 and 2003 is shown as a cost within our research and development expenditure. We expect to make further payments to Neogenesis through to the end of the research term. The level of funding is not significant in the context of our overall external research and development expenditure.

We also made a $10 million equity investment in NeoGenesis as part of the agreement, and inherited a further £4.3 million stake in Neogenesis with the acquisition of OGS. The total investment has been written down to £nil as at December 31, 2003, based on the expected realizable value in the event of a sale of Neogenesis. See Note 5 of Notes to the Financial Statements of Celltech included elsewhere in this annual report.

UCB, S.A./Pfizer (CDP 870)

In March 2001, we entered into an exclusive worldwide development and marketing agreement with Pharmacia (now Pfizer) regarding CDP 870, which was terminated in December 2003. CDP 870 is an anti-TNFα antibody fragment which binds with very high affinity to its target human TNFα. We have been developing CDP 870 for rheumatoid arthritis (RA) and Crohn s disease.

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From our now terminated collaboration with Pharmacia (now Pfizer) we received payments of $60 million.

We incurred development costs of £12.7 million during 2003 and the latter part of 2002 on the RA indication.

The gross amount of our expenditure on the Crohn s indication in 2003 was £6.2 million; in 2002 it was £3.7 million; and in 2001 it was £8.4 million. Prior to the agreement with Pharmacia (now Pfizer) we had incurred total expenditure on CDP 870 of some £10 million, which had been expensed within research and development costs.

Following Pfizer s request to renegotiate the financial terms of the collaboration, we indicated that we were unwilling to make material changes to the terms of the agreement, originally established with Pharmacia in March 2001. Consequently, in December 2003, Pfizer notified us that it would return all rights to the product. As required by the termination provisions of the agreement, Pfizer returned all information relating to CDP 870, and provided certain transitional services. Under the provisions of the agreement, Pfizer s sole residual interest in CDP 870 is the retention of its 20% share of profits from sales in Crohn s disease.

In May 2004, we announced that we had entered into a new collaboration agreement for CDP 870 with UCB. This agreement is not conditional upon the success of the offer for all the issued and to be issued share capital of Celltech by UCB.

Under the terms of this agreement, we granted UCB co-exclusive worldwide rights to develop and commercialize CDP 870. The license is exclusive for rheumatoid arthritis and other indications, excluding Crohn s disease. UCB will be responsible for the conduct of future clinical studies and all commercialization activities with CDP 870 other than in Crohn s disease, and will pay us a significant royalty on sales in these indications. UCB will also make progress-related payments to us dependent upon attaining certain project related milestones in addition to an up-front non-refundable signing fee. We have retained manufacturing rights and will supply CDP 870 material for commercialization, and will discharge all royalties due to third parties. We have retained exclusive rights for the development and commercialization of CDP 870 in Crohn s disease in North America, major European markets, Australia and New Zealand, with UCB having development and commercialization rights in other territories.

We anticipate incurring significant development costs in 2004 for CDP 870 in the Crohn s indication.

Johnson & Johnson (KDR Kinase)

In January 2001 we announced a worldwide collaboration spanning the discovery, development and commercialization of a novel class of orally active compounds for the treatment of cancer. These compounds are potent and selective inhibitors of the enzyme KDR Kinase, which has an important role in regulating the formation of new blood vessels in tumors.

Under the terms of the agreement, Johnson & Johnson will be responsible for all costs associated with worldwide development and commercialization. We will receive development milestones and royalties on future product sales. No compounds are currently in the development stage.

Merck (PDE4)

Phosphodiesterase 4 (PDE4) is a key mediator of underlying inflammation in a number of diseases, including respiratory disorders such as asthma and chronic obstructive pulmonary disorder.

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We entered into an agreement with Merck in September 1994 for the development of PDE4 inhibitors. Under the terms of the agreement Merck is responsible for all development costs. We are entitled to milestone payments and royalties on worldwide product sales. However, our option, we can participate in Phase III development and obtain an enhanced royalty.

On April 25, 2003 Merck informed us that they had discontinued Phase II studies of the lead compound in this collaboration. However, Merck is continuing its research through the ongoing study of other PDE4 inhibitors. The timing of the development of these other molecules is not certain. In the last quarter of 2003 Merck exercised its option to extend the development period for PDE4. The exercise of this option enables Merck to maintain exclusive access to our PDE4 intellectual property estate, which we licensed to Merck as part of our collaboration. Pursuant to this, during October 2003 Merck made a milestone payment to us in an amount of £0.5 million. Due to the nature of the collaboration arrangement we have not incurred any costs on development over the last three years and do not expect to incur any costs in the future.

Wyeth (Cytotoxic conjugates)

We entered into a collaboration with Wyeth in 1991 for the research, development and commercialization of antibody cytotoxic conjugates as novel oncology treatments. The first product arising from this collaboration, Mylotarg, was approved by the FDA in May 2000 for the treatment of acute myeloid leukemia in relapsed patients over 60 years of age who are not considered candidates for other cytotoxic chemotherapy. A further product arising from this collaboration, CMC-544, is currently in a Phase I study in patients with Non-Hodgkin s lymphoma. We will not develop any further treatments under this collaboration.

Under the terms of the collaboration, Wyeth is responsible for clinical development and funds the majority of trial costs for CMC-544. We contribute a portion of clinical development costs, and incurred £2.1 million of costs during 2003. We expect to incur a similar level of costs during 2004. We will receive royalties on world-wide sales of any products that are successfully commercialized. For the year ended December 31, 2003 we received royalties totaling £2.7 million arising from sales of Mylotarg. Since Celltech does not control the commercialization activities for Mylotarg it is not possible for us to estimate the level of royalties receivable in the future.

Zavesca

OGS entered into two separate agreements for the development and marketing of products for the treatment of certain inherited storage disorders. Its most advanced product, Zavesca® (miglustat), has been approved in Europe, US and Israel for the treatment of mild to moderate type 1 Gaucher disease for patients in whom enzyme replacement therapy is not a therapeutic option.

By an agreement dated November 22, 2002, OGS appointed Actelion as its sole marketer, distributor and seller of Zavesca® worldwide outside of Israel. The agreement extends for five years after the first commercial sale of the product and is extendable on an annual basis. OGS supplies product to Actelion and is entitled to royalties on the sale of the product.

In Israel, Teva has been granted exclusive rights for the product by an agreement dated November 19, 2001. This agreement has a term of seven years from regulatory approval for the product and is extendable on an annual basis. OGS supplies product to Teva.

Medarex

On November 29, 2002, OGS entered into a multi-target agreement with Medarex Inc. with the objective of jointly researching, developing and commercializing human antibody products. Other than with respect to certain expenses incurred for research activities undertaken separately by each of the parties, costs, losses and profits will be shared equally for all antibody products designated as part of the collaboration.

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BioInvent

On March 14, 2002, OGS entered into an agreement with BioInvent International AB to collaborate in the discovery, development and commercialization of human antibodies. The initial research program operates for three years. Antibodies emerging from the research may be developed and commercialized jointly by the parties or, if not, unilaterally by OGS. Profits and losses will be shared for joint products and OGS will pay milestone fees and royalties to BioInvent for any products commercialized unilaterally. As part of the agreement, OGS subscribed for shares in BioInvent to the value of 52 million Swedish Krona.

Products

Our revenues are derived mainly from sales of our products, contract manufacturing, and royalties. Approximately 73% of our revenues for the year ended December 31, 2003 were derived from product sales and contract manufacturing and approximately 27% were derived from royalties. The £353.3 million of overall 2003 sales compares with £329.6 million for the year ended December 31, 2002 and £303.1 million for the year ended December 31, 2001. Total sales (excluding royalties) for the 2003 year were £259.2 million compared with £252.9 million for the 2002 year and £241.7 million for 2001.

Our operations are organized into two key operational divisions: those of Celltech R&D and those of Celltech Pharmaceuticals. The Celltech R&D division is responsible for our research and development activities and accounts for external royalty income and milestone fees. Celltech Pharmaceuticals is responsible for the sales, marketing, distribution and supply of products. The discussion below reviews the key products of the Celltech Pharmaceuticals division during the period from 2001 to 2003:

Tussionex®	Schedule III controlled substance; 12-hour acting prescription cough treatment	}Made and sold in the }US
Zaroxolyn®	Diuretic product for resistant edema in cardiac failure and renal disease, Zaroxolyn® is also indicated for hypertension.	}Made in the US }and sold in the United }States and elsewhere
Metadate® CD, Equasym® and methylphenidate (generic)	Schedule II controlled substance for attention deficit hyperactivity disorder	}Made in the US }and sold in the United }States, UK }and elsewhere
Delsym®	12-hour acting non-narcotic over-the-counter cough treatment.	}Made in the US }and sold in the United }States and elsewhere
Semprex®-D	Low-sedation antihistamine / decongestant combination	}Made and sold in the United

		} States
Pediapred®	Liquid steroid for treating allergic, auto-immune and inflammatory illnesses	}Made in the US }and sold in the United }States and elsewhere
Ionamin®	Schedule IV controlled substance; resin-based phentermine for obesity	}Made and sold in the }US and }elsewhere
Coracten®	For the treatment of high blood pressure	}Made in Italy and sold in }UK
Dipentum®	For the treatment of ulcerative colitis	}Made in Sweden and sold }in the US and }Europe
Perenterol®	Anti Diarrhea	}Made in France and sold in }Germany

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CELLTECH PHARMACEUTICALS HISTORICAL SALES BY MAJOR PRODUCTS

	2003	2002	2001
		(£ million)	
Tussionex®	68.1	71.3	64.1
Zaroxolyn®	25.3	28.5	30.3
Metadate® CD	20.2	18.0	8.6
Generic methylphenidate	9.8	12.6	20.4
Delsym®	18.0	14.3	9.9
Perenterol®	7.8	7.1	1.5
Coracten®	7.1	6.3	5.4
Ionamin®	5.0	5.5	5.5
Dipentum®	17.1	4.6	
Pediapred®	1.4	3.9	6.0
Semprex®-D	4.0	2.6	6.7
Other	75.4	78.2	83.3
Total product sales	259.2	252.9	241.7

The following information relates to Celltech Pharmaceuticals product sales in 2003, 2002 and 2001.

Tussionex®; Delsym®. Tussionex® and the over-the-counter product Delsym® are extended release, 12-hour cough treatments, and are made utilizing our patented, resin-based, Pennkinetic® extended release formulation technology. The US Drug Enforcement Administration, or DEA, classifies Tussionex® as a Schedule III controlled substance and controls and monitors its distribution. Tussionex® is derived from a Schedule II controlled substance which we obtain pursuant to DEA procurement quotas. Our US cough franchise will be further strengthened with the planned launch of Codeprex® , a 12-hour extended release formulation of codeine and chlorpheniramine. The DEA classifies Codeprex® as a Schedule III controlled substance. This product, which utilizes our Pennkinetic® technology, is designed to have a 12-hour duration of action. The product will be positioned alongside Tussionex®, promoted for patients with severe cough who prefer to use codeine based products. The new drug application for Codeprex® was submitted to the US FDA in May 2001 and the launch is expected in the third quarter of 2004.

Zaroxolyn®. Zaroxolyn® is used for the treatment of resistant edema, which is a significant problem in congestive cardiac failure and severe renal disease. Zaroxolyn® diuretic effectiveness continues even in patients with severe renal failure. Following the expiry of patent protection of Zaroxolyn® during 2002, we pre-emptively launched our own generic metolazone during the second half of 2003, with approval granted in the third quarter of 2003. During December 2003, the US FDA approved three additional generic competitor metolazone products. These approvals of generic competitive products will result both in the elimination of promotional support for Zaroxolyn® and an anticipated rapid decline in sales during 2004. However, we believe that this will be mitigated to a degree by our first-to-market generic.

Metadate® CD. Following approval by the US FDA in April 2001, we launched this new biphasic once-daily controlled release formulation of methylphenidate. Metadate® CD is indicated for the

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treatment of attention deficit hyperactivity disorder, or ADHD. This controlled release product avoids the need for a midday dose, thus improving convenience and addressing potential concerns with pediatric patients relating to the administration of this treatment during the school day. In 2001 we increased our US sales force for the launch and initial marketing of Metadate® CD. Following an appraisal of in-market performance of Metadate® CD, however, we significantly reduced the level of detailing for this product, which resulted in the US general sales force being reduced from 350 to 170 representatives during the third quarter of 2002. The restructured sales force supports a more focused marketing campaign for Metadate® CD. In 2003, the product was re-packaged (100 count bottles) and two new dosage strengths were added (10 & 30 mg capsules, in addition to the original 20 mg capsules). Since that time, prescriptions have consistently grown. The product is promoted predominantly to pediatricians and child psychiatrists by our primary care sales force. Notwithstanding the increasingly competitive nature of the ADHD market, Metadate® CD is expected to continue to make a positive financial contribution to the business in 2004, particularly following the restructured sales force and introduction of the 10 mg and 30 mg dosage strengths. In the UK, this product will be marketed under the trademark Equasym® XL. During 2003, Equasym® XL was filed for approval in the UK and is expected to be launched in European territories towards the end of 2004/beginning of 2005, with the European organization able to build on experience from this product in the US.

In March 2002 a comparative clinical trial of Metadate® CD Extended-Release Capsules and McNeil s (a Johnson & Johnson Group company) Concerta® Extended-Release Tablets, the current market leader in the once-daily methylphenidate market segment, was initiated. The study, published in the March 2004 on-line issue of Pediatrics, showed that once-daily Metadate® CD Extended-Release Capsules were more effective than Concerta® in children with ADHD during the morning hours, and that the two treatments were similar in efficacy during the afternoon. The study also showed that, with near-equal daily doses, the overall behavioral effects of Metadate® CD were greater than those for Concerta® across time periods corresponding to a typical school day (averaged over 1.5-7.5 hours post dose).

Methylphenidate. Methylphenidate is used in the treatment of ADHD in children and young adults. The DEA classifies methylphenidate as a Schedule II controlled substance.

In addition to 10 mg, 20 mg and 30 mg Metadate® CD, our methylphenidate range in the US consists of 5 mg, 10 mg and 20 mg immediate release tablets, and 10 mg and 20 mg extended release tablets. All the immediate release formulations and the 10 mg and 20 mg extended release tablets are generic equivalents of formulations of the branded product Ritalin which is sold in the US by Novartis AG. The 10 mg and 20 mg extended release tablets are marketed in the US under the trademark Metadate® ER. In May 2000, we obtained a license in Europe for the immediate release methylphenidate range and launched the product in the UK under the trademark Equasym®.

Semprex®-D. Semprex®-D is a combination antihistamine/decongestant for allergic rhinitis (hay fever). The product is indicated for relief of symptoms associated with seasonal allergic rhinitis.

Pediapred®. Pediapred® is a liquid steroid used for treating a wide range of medical conditions including allergic, auto-immune and inflammatory based illnesses. Pediapred is not currently actively promoted and is also sold by the group in a generic form.

Ionamin®. Ionamin® is a resin-based formulation of phentermine prescribed in the treatment of obesity. The DEA classifies Ionamin® as a Schedule IV controlled substance, and controls and monitors its distribution. For information on litigation surrounding Ionamin®, see Item 8 Financial Information Litigation .

Coracten®. Coracten®, an anti-hypertensive and branded generic version of nifedipine, is marketed in the UK. In 2003 sales of this product increased by 13% largely due to our strong promotional efforts.

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Dipentum®. Dipentum® is a treatment for ulcerative colitis. We acquired certain rights to the product from Pharmacia during 2002 and are marketing it in the US and Europe. We are currently undertaking life cycle management initiatives with Dipentum®, in addition to establishing our Rochester site as a manufacturing source for Dipentum®, which is expected to enhance the profitability of this product.

Product Sales By Geographical Area

The following table summarizes net sales by geographical area for our fiscal years ended December 31, 2003, 2002 and 2001:

	Turnover		
	2003	2002	2001
	(£ million)		
US	160.5	155.7	160.3
UK	40.6	41.6	46.3
Rest of Europe	50.7	48.2	28.1
Rest of World	7.4	7.4	7.0
	259.2	252.9	241.7

As the majority of our revenues arise in the US, the results reported in sterling can be materially influenced by changes in the US$/£ exchange rate. See Item 3 Risk Factors Currency Fluctuations and Item 5 Operating and Financial Review and Prospects Overview Other Factors.

United States

Our US-based operations concentrate on the manufacture, distribution and marketing of pharmaceutical products. Our Rochester site in the US employed 693 people as at December 31, 2003. As part of our overall strategy of refocusing our sales and marketing capabilities towards specialist-focused audiences, we restructured our US general sales force during 2002, which resulted in the US general sales force being significantly reduced. In addition, we created a new US gastrointestinal specialized sales force consisting initially of 30 representatives.

With approximately 170 primary care and 30 specialist sales people operating in regional business units, we believe that the sales forces are of an appropriate size to support our US marketing strategy given our current product portfolio. The US sales force promotes its products through specialists and primary care physicians. We also have ten national healthcare account managers who call on various types of managed care organizations, including health maintenance organizations, group purchasing organizations, pharmacy benefit managers, mail order pharmacies and internet pharmacies.

We currently have a distribution agreement with Geneva (a Novartis subsidiary) for generic methylphenidate products.

The Rochester, New York facility is our distribution center for the eastern part of the US. A warehouse in Sparks, Nevada is our center for distribution to the western part of the US.

The manufacturing operations within the US have been historically located at two sites, the principal being in Rochester, New York with a satellite operation in Santa Ana, California. During 2003 we made the decision to consolidate our manufacturing within Rochester, transferring activities from Santa Ana and then closing that facility.

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United Kingdom

Our UK-based operations are conducted from three sites in the UK and employed 418 people at December 31, 2003. During 2003, we restructured the UK sales force from primary care to specialist focus resulting in a net reduction of 49 employees and 63 redundancies. The specialist sales force in the UK is now approximately 30 persons. The majority of our UK products are manufactured at our UK facility in Bardsley Vale, where third-party contract manufacturing is also undertaken. Although we sold our UK vaccines business at Speke in October 2000 to PowderJect for £55 million, we continued to earn some income resulting from our continued distribution of PowderJect s influenza vaccine through October 2003. See Item 4 History and Development of the Company .

Rest of Europe

During 2003, we accelerated the transition of our European organization away from our previous primary care focus towards a specialist focused organization in anticipation of our launch of CDP 870 in Crohn s disease in 2006. We believe this transition will allow us to establish links with prescribing physicians and opinion leaders well ahead of the launch.

Celltech Pharmaceuticals trades in Ireland through a registered branch of Celltech Pharmaceuticals Limited, a UK entity. The Irish operations include a sales force of four, who market a range of branded pharmaceutical products primarily to physicians.

On October 1, 2001, we completed the acquisition of Thiemann which gave us a high quality sales and marketing organization in Germany, the largest European market. The German operations market a range of pharmaceutical products through a pharmacy sales force of 11 and a specialist sales force of 36. The sales force restructuring discussed above resulted in a net reduction of 29 employees.

In France our pharmaceutical operations are based in Paris and market a range of products. These have historically been promoted through both a primary care sales force and a specialist sales force. In 2003, however, we disbanded the primary care sales force due to the termination of certain co-promotion contracts and the continued refocusing on specialist sales. This resulted in the net reduction of 58 employees. There are now 20 persons in the specialist sales force.

In Spain, through a sales force of 18, we market a range of branded pharmaceutical products. The sales force in Spain was restructured in the first half of 2004 to move the focus from a primary care to specialist audience, as had been done in the UK, France and Germany in 2003. This restructuring resulted in the net reduction of 17 employees.

We established Celltech Pharmaceuticals in Denmark in October 2002. We market Dipentum® to gastrointestinal specialists across the Nordic region through a sales force of four.

We sold our Belgian fine chemicals business, which supplies active pharmaceutical ingredients to pharmacies, in 2001. Due to termination of certain co-promotion contracts the primary sales force of four was disbanded in 2003 and the Brussels office closed.

Following the sale of our fine chemicals business in Belgium, the primary production of all pharmaceutical products sold in continental Europe is now performed by third parties.

We intend to use our existing European sites as hubs to expand into further territories in order to provide comprehensive pan-European specialist coverage. During 2004, we expect to establish satellite sales forces in the Netherlands and Portugal, with further expansion planned during 2005.

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Rest Of World

Whilst we do not have an infrastructure outside Europe and the US, we have revenues from products sold world-wide through distributors and licensees of our intellectual property.

Celltech R&D

We derive additional revenues from royalties. Royalties arise principally from:

- licenses of antibody manufacturing technology (including licenses related to the Boss technology);
- North American sales of Asacol®, which is a treatment for inflammatory bowel disorders, manufactured and sold under license by Proctor & Gamble in the US and Canada;
- sales of our patented protein Pertactin (69kD), which is licensed to GlaxoSmithKline for their acellular pertussis vaccine Infanrix® (trademark of GlaxoSmithKline), which is sub-licensed to Aventis;
- sales of Mylotarg; and
- sales of Chirocaine® (included below in Other).

See Item 8 Financial Information Litigation for the status of certain 69kD patent litigation and the resolution of the Boss US patent litigation.

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
		(£ million)	
Antibody engineering	62.7	53.1	37.1
Pertactin	8.6	11.0	8.8
Asacol	6.1	7.6	10.2
Mylotarg	3.1	2.7	4.2
Other	3.1	2.3	1.1
Exchange gains on related forward contracts	10.5		
Total royalties	94.1	76.7	61.4

The royalties from the antibody engineering (formerly referred to as Boss technology) continued to grow strongly in 2003 as sales from the underlying antibody products grew substantially in the market. These revenues are derived from seven products, including Remicade, ReoPro®, Rituxan® and Herceptin®. The settlement of the Boss dispute with Genentech will result in a gradual decline (one-twelfth per quarter) of our US antibody engineering royalty rates until the original scheduled expiration of the Boss patent in March 2006, the impact of which will be to reduce the effective royalty rate for antibody-engineering revenues by approximately 30% in 2004 and 63% in 2005 compared to what we would originally have received. We expect this to be partly mitigated by the anticipated growth in sales of the underlying products.

Research and Development

Our discovery and development functions are carried out at our sites in the UK and US. In order to rebalance resources between our research and development activities, we closed our novel target discovery facility in Seattle in the first quarter of 2004, and transferred certain key activities to the Rochester and Slough sites. Our discovery and development team of approximately 630 people manages the development of all products of the group including manufacturing, clinical and regulatory support. We believe that our discovery and development capabilities encompass all the major technologies and specialties employed in a major biopharmaceutical business.

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We also have development collaborations with pharmaceutical and biotechnology companies and with academic institutions. These collaborations include pharmaceutical formulations and delivery technologies with standard pharmaceuticals in addition to biotechnology collaborations. See Item 4 Information on the Company Business Overview New Product Pipeline and Item 4 Information on the Company Business Overview Research Collaborations .

Intellectual Property

We attach great importance to patents and trademarks for the protection of our investment in product discovery, development, manufacturing and marketing. Our policy is to seek the strongest possible protection for our products and technologies, including new chemical and biological entities, processes, formulations, delivery systems and uses. Our general policy is to vigorously defend and enforce our intellectual property rights. See Item 8 Financial Information Litigation and Item 3 Key Information Risk Factors .

Patents

We have more than 400 patent families relating to our products and technologies, including over 250 granted US patents. In our areas of particular focus, we have 29 patent families relating to integrin inhibitors, 45 patent families relating to antibody products and technology and 34 patent families relating to oncology targets.

We also have patent rights to the 69kD protein, Pertactin, which is an important component of acellular pertussis vaccines. We have granted GlaxoSmithKline an exclusive worldwide license to use the 69kD protein which is incorporated in its vaccine, Infanrix®. GlaxoSmithKline has granted a sub-license to Aventis pursuant to which we will receive additional royalty income.

In December 2001, we announced the settlement of a long-running patent dispute with Genentech relating to interference proceedings between our former Boss US patent and Genentech s US Cabilly patent in the field of antibody manufacturing. We are engaged in a patent validity and infringement litigation involving our 69kD patent. We are also currently in litigation in the UK and US courts with the US biopharmaceutical company, MedImmune Inc. in a matter relating to MedImmune s alleged failure to pay royalties on MedImmune s Synagis product pursuant to a worldwide patent license agreement covering our antibody engineering patent known as the Adair patent. See Item 8 Financial Information Litigation .

Trademarks

Most of our significant branded pharmaceuticals are protected by trademarks in their major markets. The material trademarks to which we have rights include Asmasal, Asmabec, Betnesol, Bettamousse, Chirocaine, Clickhaler, Cocois, Codeprex, Coracten, Coracten XL, Delsym, Dexedrine, Dipentum, Equasym, Gastrocrom, Hylorel, Imurel, Ionamin, Metadate, Micralax, Minijet, Mykrox, Necyrane, Normax, Pediapred, Pennkinetic, Perenterol, Plurexid, Predsol, Semprex-D, Theracine, Trandate, Tussionex, Xyrem, Zaroxolyn, Zavesca and the Celltech , Celltech R&D , Celltech Pharmaceuticals , Chiroscience , Celltech Chiroscience , Medeva and Celltech Medeva marks. Trademark protection continue some countries as long as a trademark is used and in other countries as long as a trademark is registered.

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Competition

The biopharmaceutical industry is highly competitive. There are numerous companies in the UK, the US and in other areas of the world engaged in the development, manufacture and sale of pharmaceuticals of the kind being developed and sold by us. Many of these companies have substantially greater financial resources than we do. In addition, the increasing influence of both managed care organizations and governments and the greater use and acceptance of generic products have resulted in an erosion of prices in segments of the pharmaceutical market worldwide. We are not immune to these competitive and pricing influences.

Where possible we attempt to protect the competitive position of our products through patents and brand recognition. However, the introduction of new products and processes by competitors may affect pricing levels or result in the replacement or reduction in use of our products by other companies products. There can be no assurance that any of our products will not become outmoded or redundant, notwithstanding patent protection.

Our future results are likely to be affected principally by our success in the timeliness of bringing our pipeline products to market and, in the shorter term, by competition to our existing portfolio of products. Our future results will also depend on our ability to compete on the basis of price and to maintain a reputation for quality, efficacy and cost effectiveness with our customers. In addition, our ability to attract and retain scientific and other personnel, to develop and implement marketing plans, to maintain patent protection and to secure adequate capital resources are all important competitive factors. See Item 4 Information on the Company Business Overview New Product Pipeline , Item 4 Information on the Company Business Overview Products , Item 3 Key Information Risk Factors and Item 5 Operating and Financial Review and Prospects .

Raw Materials

The key sources of our raw materials are both bulk pharmaceuticals and specialty ingredient manufacturers based primarily in the US and UK. Our raw material pricing is relatively stable with the only significant cost increase currently anticipated being in the price of the raw materials we purchase from Nektar. However, we anticipate that this increase will be mitigated by a concomitant decrease in associated royalties payable to Nektar.

We have not experienced any significant shortages in supplies of raw materials and seek, wherever commercially feasible, to secure second source suppliers for key materials or to stockpile materials where shortages may arise. We have not, however, secured qualified second source suppliers or stockpiles in respect of key raw materials for some of our material products, and there can be no assurance that shortages will not develop or that prices for raw materials will not increase in the future.

Seasonality

The US cough and cold products are sold predominantly in the winter months and are dependent on the severity and duration of the cough/cold season. Otherwise, the manufacturing and marketing of our products have not historically been strongly seasonal in nature.

Government Regulation

Regulation by government authorities in the US, the UK, the rest of Europe and other countries in which we operate is a significant consideration in the development, production, marketing, labeling and reimbursement of our products and in the continuation of our research and development activities.

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In the US, the European Union and most other countries, in order to test, market and sell biological products, drugs, medical devices and diagnostic products, there is a requirement to obtain and to maintain an approval for a product from the appropriate regulatory authority, referred to as a marketing authorization. We are also subject to various laws, regulations, policies, guidelines and recommendations relating to such matters as safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the protection of the environment. Furthermore, there has been a general trend towards greater regulation of the biopharmaceutical industry and its products.

The submission of a marketing authorization application to a regulatory authority does not guarantee that an authorization will be granted. Regulatory authorities require substantial data in connection with marketing authorization applications, resulting in a lengthy and costly approval process. The time taken to obtain such approval varies depending upon the countries concerned and the nature of the product, but can take from a few months to several years and usually involves substantial expenditure.

Furthermore, regulatory authorities of different countries may impose different requirements and may refuse to grant, or may require additional data before granting, an approval even though the product may have been approved by the regulatory authority of another country. There is an ongoing initiative, the International Conference on Harmonization, among representatives from Japan, the US and the European Union, which issues tripartite guidances to limit regulatory differences on specific topics, but it may be many years before its objective is fully achieved, if at all.

Even if approval is obtained, failure to comply with present or future regulatory requirements, or the emergence of new information reflecting adversely upon the safety or effectiveness of the approved drug, can lead the regulatory authority to suspend, vary or withdraw its approval to market the product.

In the US, the principal regulatory agency is the FDA. Nearly all other countries have similar national regulatory authorities. In Europe, we must take into consideration:

- the regulatory climate within the European Union, including the influence of the International Conference on Harmonization, and the approach of the European Agency for the Evaluation of Medicinal Products (to be redesignated the European Medicines Agency pursuant to new Regulation No. 726/2004) and its expert advisory committee, the European Committee for Proprietary Medicinal Products, or CPMP, as well as

- the position of the national regulatory authorities.

New licensing procedures were introduced in the European Union in 1995 aimed at harmonizing the regulatory requirements and outcomes among member states in respect of the same products. The impact of these new procedures is scheduled for review by the European Commission. The regulation of medicines is not yet fully harmonized although substantial progress has been made in recent years.

Recognizing global regulatory differences, wherever practical, we aim to design pre-clinical and clinical protocols which should generate sufficient data of a quality that will be acceptable to support applications for the same product in each country where it is intended to be marketed.

After regulatory approval is obtained, products are subject to continual review. Manufacturing, labeling and promotional activities are continually regulated by the FDA and equivalent regulatory agencies of other countries, and the manufacturer also reports certain adverse events involving its drugs to these agencies. Previously unidentified adverse events or an increased frequency of adverse events that occur post-approval can result in labeling modifications of approved products, which can adversely effect future marketing of a drug. Finally, approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing.

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In some countries it is necessary to obtain approval for the price to be charged for a medicinal product or device. This is true in a number of European Union member states. In the UK, the launch price of pharmaceuticals is set by the manufacturer but is subject to the constraints of the Pharmaceutical Price Regulation System which controls the profitability of a company s business and is administered by the UK s Department of Health.

Governments may also influence product prices through the control of national healthcare systems and other organizations that bear all or a portion of the cost of products. In the US, the Medicare program, a federal program that provides defined health benefits for the aged and disabled, has an important influence on revenues that can be derived from a product. The Medicaid program, a joint federal and state program that provides defined health benefits to certain financially needy individuals, may also significantly impact revenues that can be derived from a product. Both programs also impose certain marketing practice restrictions. Many states have enacted generic substitution statutes which permit, and in some cases require, the substitution of a different manufacturer s version of a product for the one prescribed. In addition, many states require pharmaceutical companies to rebate a portion of their revenues from products sold to Medicaid beneficiaries back to the states concerned.

Private medical care plans likewise influence prices by placing restrictions on coverage of products and the level of reimbursement.

US Regulation

The production and marketing of our products and their research and development activities are subject to regulation by federal and state governmental authorities in the US. Although most states maintain one or more agencies with power to regulate biopharmaceutical products, they commonly defer to the federal agencies discussed below in matters relating to development, production, marketing, labeling and reimbursement.

FDA Regulation

Biological products, drugs, medical devices and diagnostic products are subject to rigorous review by the FDA. The Federal Food, Drug and Cosmetic Act, the Public Health Service Act, The Food and Drug Administration Modernization Act and other federal statutes and regulations govern or influence the testing, manufacture, safety, efficacy, labeling, storage, record keeping, approval, advertising and promotion of such products. Product development and approval within this regulatory framework takes a number of years, involves the expenditure of substantial resources and is commercially risky. Many products ultimately do not reach the market because of toxicity or lack of effectiveness as demonstrated by required testing. Total development time for successful compounds can exceed ten years.

The steps required before a pharmaceutical product may be marketed in the US include:

- pre-clinical laboratory testing;
- submission to the FDA of an investigative new drug application which must become effective before human clinical trials may be commenced;

adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug;

submission to the FDA of a marketing authorization application (new drug application, or NDA, abbreviated new drug application, or ANDA, or biologics application, or BLA);

FDA approval of the marketing authorization application prior to any commercial sale or shipment of the drug; and

FDA approval of the manufacturing facility.

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Good Practice Standards. Various standards are applied either by law or custom to the activities of pharmaceutical companies. These include principally:

- Good laboratory practice, applied to studies performed during pre-clinical development to identify the compound s behavior and toxicity in animals;
- Good clinical practice, intended to ensure the quality and integrity of clinical data and to protect the rights and safety of human subjects in clinical trials; and
- Good manufacturing practice, intended to ensure the quality of drugs by setting minimum standards for all drug manufacturing facilities. Such standards have been developed by the FDA and by the US National Committee for Clinical Laboratory Standards.

Clinical Testing. Clinical testing of new compounds in humans is designed to establish both safety and efficacy in treating a particular disease or condition. These studies are usually conducted in three or four phases of testing. The clinical trial process may take from two to six years or more to complete.

- Phase I trials are normally conducted in a small number of healthy human subjects or patients without the specific condition targeted. Their purpose is to provide a preliminary evaluation of the product candidate s safety, toxicity and behavior when administered to humans.
- In Phase II trials, the product candidate is assessed for its short-term safety and preliminary efficacy in a limited number of patients with the targeted disease or disorder. The appropriate dose ranges and regimens for Phase III are also determined during this phase.
- Phase III trials involve a comprehensive evaluation of safety and efficacy that might not have been evident in smaller studies. The trials are carried out, typically on a multi-center basis, on a sufficient number of patients to obtain statistically significant results. All adverse reactions are investigated in detail and special features of the product candidate are explored. Phase III studies are the pivotal studies designed to support marketing authorization for a BLA or NDA application.
- Phase IV trials are usually carried out after the product has been granted a license in order to extend its labeling or support its existing labeling.

There can be no assurance that any new drug will successfully proceed through this approval process or that it will be approved in any specific period of time.

Orphan Drug Status. The Orphan Drug Act encourages manufacturers to seek approval of products intended to treat diseases with a prevalence of less than 7.5 patients per 10,000 population or currently approximately 200,000 patients in the US. This Act provides tax incentives, FDA assistance with protocol design, and a period of seven years of marketing exclusivity for a successful product. The FDA has designated Xyrem® as an orphan drug. Other of our products could be so designated in the future.

Manufacturing Controls. Biopharmaceutical manufacturers and suppliers are required by the Federal Food, Drug and Cosmetic Act and by FDA regulations to follow good manufacturing practice requirements and are subject to routine periodic inspections by the FDA and certain state and foreign regulatory agencies for compliance with good manufacturing practice and other applicable regulations. Failure to achieve satisfactory good manufacturing practice compliance as confirmed by routine inspections could have a material adverse effect on a company s ability to continue to manufacture and distribute its products.

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Advertising and Promotion. The FDA regulates advertising and promotion of prescription drugs. Promotion for unapproved uses is prohibited, and sponsorship of medical symposia and publications is regulated. Financial incentives to prescribers are regulated under federal and state criminal laws as well as codes of practice for the medical professions.

DEA Regulation

Certain products, including our methylphenidate, Tussionex®, Ionamin® and Codeprex® are controlled substances subject to additional regulation by the US Drug Enforcement Administration. See Item 3 Key Information Risk Factors, Item 4 Information on the Company Business Overview Products Methylphenidate; Ionamin®; Tussionex®; and Delsym® .

Health, Safety and Environmental Regulation

We are subject to US federal, state and local laws, regulations and ordinances that (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid or hazardous wastes; and (ii) impose liability for the costs of cleaning up, and certain damages resulting from, sites of past spills, disposal or other releases of hazardous substances. Some of our operations may generate, or may have generated in the past, hazardous wastes. We believe that we have conducted such operations and disposed of any such wastes in compliance with applicable environmental laws and regulations.

We maintain a corporate social responsibility, or CSR, approach which is defined by our CSR Committee and committed to integrating environmental, economic and social considerations into our daily operations and to engaging with stakeholders to ensure these considerations reflect current best practice. We are focused on the transparent reporting of progress against our CSR objectives to the broad range of stakeholders interested in different elements of our CSR activities. These stakeholders include employees, shareholders, business partners, suppliers, and the local and scientific communities. In 2003 we published our first CSR report, available on our website or in hard copy from the Investor Relations department. The Company has nominated a CSR Committee, with Board representation from Peter Allen, Finance Director, Dr. Melanie Lee, R&D Director and Ingelise Saunders, CEO Celltech Pharmaceuticals. We continually work 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.

We also have an ongoing dialogue with key stakeholders to ensure that the scope and reporting of our CSR program is relevant and meets their needs, and takes account of future potential changes in CSR reporting required by stakeholders or legislation. The intention is that the CSR program will undergo an internal audit followed by independent verification.

We are not aware of any environmental conditions relating to present or past waste generation at or from our facilities or operations, that would be likely to have a material adverse effect on our financial condition or results of operations. However, there can be no assurance that environmental liabilities in the future will not have a material adverse effect on our financial condition or results of operations.

Product Liability

Companies that market products in the US are subject to suit in state and federal courts for personal injuries allegedly caused by the products. The risk of product liability litigation is significantly greater in the US than in most European jurisdictions, and damage awards can be substantial. FDA approval is not a defense to liability, but failure to comply with FDA requirements may constitute evidence of negligence. See Item 8 Financial Information Legal Proceedings .

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European Union Regulation

The system of regulation of medicinal products for human use in Europe dates back to 1965. There is a broad range of European Community legislation, which has been implemented by European Union member states, governing all aspects of activities related to medicinal products. This legislation is supplemented by numerous guidelines, which are not legally binding in most cases. However, failure to comply with, or a departure from, the guidelines requires justification and may, for example, raise issues as to the adequacy of data submitted in support of an application to market a product.

Pre-Clinical Research. European legislation (Directive 75/318/EEC, as amended) imposes certain specific requirements for pre-clinical testing of a product where the data generated will be used for an application for a product marketing authorization in the European Union. Basic provisions in legislation are expanded upon by a broad range of guidance documents issued by the European Committee for Proprietary Medicinal Products (CPMP), which, while not usually incorporated into the legislation, are extremely important for companies to follow when products are under development. Deviation by companies from such guidance, particularly where they are specific to product groups, would generally require a strong justification upon application for a marketing authorization. Directive 86/609/EEC establishes pre-clinical research standards to be met by research institutions engaged in animal research. These provisions are enforced through registration and inspection. Additionally, Good Laboratory Practice Directive L(87/18/EEC) establishes high standards of practice and associated legislation for laboratories, with compliance again monitored through a system of inspection.

Clinical Research. Directive 75/318/EEC establishes requirements for conducting research in human beings where the data is intended to be utilized in a marketing authorization application. The CPMP has issued a number of guidance documents. In particular, these include guidelines on good clinical practice which adopt the texts recently developed by the International Conference for Harmonization. These guidelines became effective in January 1997 and take account of CPMP guidelines on good clinical practice previously adopted in 1990. In addition, some general legislation, such as the Protection of Individuals Directive with regard to the Processing of Personal Data Directive (95/46/ EEC) are also relevant to the conduct of clinical research. Aside from these provisions, however, the conduct of research in the European Union is not yet subject to specific European Union legislation. As a result, the national laws and practices of member states still govern research conducted within the local jurisdiction. The variation in these laws and practices limits the extent to which the conduct of research projects can be streamlined across multiple sites throughout the European Union.

Marketing. In 1995, the European Union introduced the New System, also known as Centralized and Mutual Recognition Procedures, for authorization of medicinal products. In particular, Council Regulation 2309/93, which was recently amended by Council Regulation EC No. 726/2004, established a process of European authorization for particular types of biotechnology and high technology products and new chemical entities. This centralized application system requires an application to the European Agency for the Evaluation of Medicinal Products for a marketing authorization to be made by a person who is established in the Community and who will be responsible for placing the product on the market. This agency coordinates the assessment process and procedure, while the CPMP, a body of expert advisers drawn from the member states, undertakes, with the assistance of nominated external experts drawn from the European Union, the scientific assessment of the product dossier and produces an opinion as to whether a product satisfies the criteria for authorization. The criteria for authorization involve evaluating a potential product s safety, quality and efficacy. The European Commission then makes the final decision as to the grant or refusal of a marketing authorization. If successful, the application will result in a single authorization for the product concerned which is valid in all member states.

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Manufacturing. Manufacturing conducted within the European Union must meet good manufacturing practice requirements (Directive 91/356/EEC). The legislation (Directive 75/319/EEC) imposes precise obligations upon manufacturers, in particular with regard to control, batch testing and release of products in the European market and the qualifications for the personnel authorized to undertake such activities. Inspections of manufacturing site facilities and procedures are regularly undertaken, both by local inspectors and by inspectors from other countries in which the product is to be sold. The legislation requires clear, contractual documentation regarding how manufacturing services are provided by one company to another when aspects of the manufacturing process are subcontracted to others by the marketing authorization holder and/or manufacturer.

Pricing. In a number of member states, it is not possible to market a product until pricing negotiations with the responsible government authorities have been concluded. The grant of a marketing authorization by the regulatory authorities does not guarantee the negotiation of a satisfactory price or of reimbursement terms under national public health systems for the products concerned.

Orphan Drugs. Orphan drug regulations have been effect in the European Union since April 2000. Orphan drug designation has been granted for our products Xyrem® and Zavesca®. This status is available to products that treat diseases with a prevalence of fewer than five in 10,000 persons. Designation as an orphan dug provides 10 years of marketing exclusivity and automatic access to the centralized procedures for product license applications.

Regulation in Other Countries

In general, regulation is similar in countries outside the US and Europe, with the approval system regulated by specific agencies in each geographic area. However, approval by one agency does not ensure approval in other countries.

C. ORGANIZATIONAL STRUCTURE

As of June 14, 2004, the following chart presents our corporate structure, the jurisdiction of incorporation of our subsidiaries and the percentage of shares we hold directly or indirectly in these subsidiaries:

Name of Subsidiary	Jurisdiction of Organization	Percentage of Share Ownership
Celltech R&D Limited.	England and Wales	100%
Chiroscience Group Limited	England and Wales	100%
Cistron Biotechnology, Inc.	Delaware	100%
Darwin Discovery Limited.	England and Wales	100%
Darwin Molecular Corporation	Delaware	100%
Chiroscience R&D Limited.	England and Wales	100%
Confirmant Limited	England and Wales	100%
Celltech R&D Inc.	Delaware	100%
Celltech Europe Limited.	England and Wales	100%
Celltech U.S. Limited.	England and Wales	100%
Celltech Therapeutics Inc.	Delaware	100%

Celltech Japan Limited.	England and Wales	100%
Medeva Limited	England and Wales	100%
Medeva International Limited	England and Wales	100%
Celltech Pharma Europe Limited	England and Wales	100%
International Medication Systems (UK) Limited	England and Wales	100%
Evans Healthcare Limited	England and Wales	100%

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Name of Subsidiary	Jurisdiction of Organization	Percentage of Share Ownership
Medeva Holdings B.V.	The Netherlands	100%
Celltech Pharma S.A.	Spain	100%
Celltech Pharma S.A	Portugal	100%
IMS (Overseas) S.A.	Switzerland	100%
Medeva France S.A.	France	100%
Celltech US LLC	Delaware	100%
Celltech Pharmaceuticals Limited	England and Wales	100%
Celltech Pharma Holding GmbH	Germany	100%
Celltech Nordic ApS	Denmark	100%
Medeva B.V.	The Netherlands	100%
Celltech Pharma S.A.	France	100%
Celltech Pharma Ireland	Ireland	100%
Celltech Reinsurance (Ireland) Limited	Ireland	100%
Celltech Insurance (Ireland) Limited	Ireland	100%
Celltech Pharma S.A.	Belgium	100%
Medeva Pharma Schweiz AG	Switzerland	100%
Celltech US, Inc.	Delaware	100%
Celltech Holdings Inc.	Delaware	100%
Celltech Americas, Inc.	Delaware	100%
Celltech Manufacturing CA, Inc.	California	100%
Celltech Pharmaceuticals, Inc.	Delaware	100%
Celltech Manufacturing, Inc.	Delaware	100%
Upstate Pharma, LLC	New York	100%
Celltech Technologies Inc	New York	100%
Medevale Pharmaservices Limited.	England and Wales	100%
Celltech Limited	England and Wales	100%
Celltech Manufacturing Services Limited	England and Wales	100%
Celltech Pharma GmbH & Co. KG	Germany	100%
Celltech Pharma Beteiligungs GmbH	Germany	100%
Celltech Deutschland GmbH & Co. KG	Germany	100%
Oxford GlycoSciences Limited	England and Wales	100%
Celltech BV	The Netherlands	100%
Oxford GlycoSciences (UK) Limited	England and Wales	100%
Oxford GlycoTherapeutics Limited	England and Wales	100%
Oxford GlycoSciences Inc	Massachusetts	100%

D. PROPERTY, PLANTS AND EQUIPMENT

Properties

Our head office is based at leased premises in Slough, Berkshire, England. This Slough facility houses our head office and development operations. Its lease is for approximately 50,000 square feet and runs until October 2021. A second 90,000 square foot leased facility in Slough is used for research operations. The lease for this facility will expire in December 2021.

As of December 31, 2003, we also had leased research facilities in Seattle, Washington; and Cambridge Science Park, Cambridge, England. The lease for the Seattle, Washington facility expires in August 2004 and will not be renewed. The lease on the Cambridge Science Park Facility at

Granta Park, Cambridge, England will expire in June 2020.

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In the second half of 2003, we closed our novel target discovery facility in Seattle, US. Certain research activities previously carried out in Seattle are in the process of being transferred to our Slough and Rochester facilities.

We have two principal manufacturing sites, which are located at Bardsley Vale, England and Rochester, New York. These sites are described below. To further streamline our supply chain, we closed a third manufacturing site located in Santa Ana, California in the second half of 2003. We have distribution sites at Dunstable, England; Rochester, New York; and Sparks, Nevada and a number of small leased office, warehouse and research sites.

The 6.5 acre site at Bardsley Vale is a freehold and consists of a manufacturing plant and office space. The Bardsley Vale plant manufactures approximately 150 varied pharmaceutical tablets and sterile products for us and other third party customers. Plant utilization varies during the year and can be particularly impacted by the timing of the third party contract manufacture business. However, on average the plant utilizes 75-85% of its capacity. The sterile production facility is currently being upgraded. The upgrade will replace the old air handling units and remove the spatial constraints by extending the sterile products facility by 30%. The new extension will support the current sterile core and be constructed to class 100,000 and class 10,000 environmental standards. The sterile core will be remodeled and will maximize improvements in material and people flow. The end result should improve the marketability of the facilities for contract manufacture and ensure regulatory compliance in the future. The total cost of the upgrade is expected to be £5.0 million (of which £2.6 million has been spent through December 31, 2003) and is anticipated to be completed by the end of 2004.

The Rochester facility comprises a 40 acre site with over 100,000 square feet of office space and over 400,000 square feet of manufacturing, laboratory and warehouse space. The Rochester facility manufactures Ionamin®, Tussionex®, Delsym®, Pediapred®, Zaroxolyn®, generic metolazone, Metadate® CD, Americaine® and methylphenidate. After the closing of the 32,000 square foot facility in Santa Ana, California in 2003, we transferred the manufacture of our bulk methylphenidate tablets to the Rochester facility and work is currently ongoing to establish Rochester as a manufacturing source for Dipentum®. We also transferred some key R&D activities to Rochester, such as our bioinformatics activities, as a result of the closing of the Seattle facility. In addition, our Rochester facility is now able to perform quality testing of our biological products prior to their release and it is anticipated that it will increasingly become involved in the packaging and distribution of these products. Our Rochester facility has undergone a major capital investment program. In order to take advantage of certain real estate tax abatement, sales tax exemptions for equipment purchases in the period to December 31, 2002 and certain other benefit programs currently available from the County of Monroe Industrial Development Agency, or COMIDA, Medeva conveyed title to the facility and such newly acquired equipment to COMIDA and coincident with such conveyance, leased the entire facility together with such equipment back from COMIDA for a ten year term expiring September 30, 2007 at a rental of $1.00 per annum on a net-lease basis. The benefit period related to tax exemptions on equipment purchases lapsed in 2002. As such, in consideration of the sum of $1.00, we re-acquired rights, title and interest in and to all equipment and personal property previously covered by the term of the lease. Effective from January 2003, no equipment is covered by the terms of the lease. We may at any time for any reason terminate the net lease agreement and immediately re-acquire title to the facility upon the payment of nominal consideration. Plant utilization at Rochester varies during the year, however, on average the plant utilizes 30% of its three-shift operating capacity or intermediate and semi-finished products. Finished goods are produced on a two-shift basis and this also results in 30% utilization.

In Europe we lease office space in Paris and Madrid in 2002 opened an office in Denmark to market certain existing specialist-focused products across the Nordic region. We expect to open offices in the Netherlands and Portugal in 2005.

We also acquired with Thiemann the freehold to a building containing offices and laboratories in Waltrop in north-east Germany. The laboratories and part of the office space are leased to third parties and it is our intention to sell the building. To replace this facility we have leased new offices in the Essen area of Germany.

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With the acquisition of OGS we acquired the leases of properties in Milton Park and Abingdon, both in Oxfordshire. The lease of the property in Milton Park which comprises approximately 39,000 square feet expires in December 2013 with a right for OGS to terminate in December 2008. The property is currently vacant. The two properties in Abingdon comprise in aggregate approximately 29,000 square feet. The lease of one property expires in June 2013 with a break option in June 2008 and the lease of the second property is currently being renegotiated but it is anticipated that it will expire in August 2005 with an option to break at any time after February 2005. OGS had also entered into an agreement to construct and lease a new building totaling 61,000 square feet on an adjacent site to the building at Milton Park referred to above. This agreement and the lease have been terminated.

Properties used in our operations are considered suitable for the purpose for which they are currently used and adequate to meet both our current needs and our needs for the reasonably foreseeable future, although capital expenditures will continue to be incurred in order to maintain existing facilities, meet changing regulatory, health, safety and environmental laws, enact process improvements and facilitate the manufacture of new products.

The Santa Ana site, which we closed in 2003, operated as a satellite manufacturing facility to Rochester and consequently utilization rates varied significantly from month to month being particularly dependent on our market share of generic and branded methylphenidate.

We are not aware of any material environmental issues that will affect the utilization of the plants and there are no material plans at the Rochester facility to expand or improve the site beyond its existing level.

There are no material tangible fixed assets other than those discussed above.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following operating and financial review and prospects should be read in conjunction with our consolidated financial statements included in this annual report. The consolidated financial statements and the financial information discussed below have been prepared in accordance with UK GAAP. See Note 30 of Notes to the Financial Statements for a discussion of the significant differences between UK GAAP and US GAAP.

Overview

General

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. We believe that our advanced antibody technologies, together with our small molecule capabilities, provide a

strong platform for the development of treatments for immune and inflammatory disorders and cancer. We also have our own commercial operations, which were initially established with our acquisition of Medeva in January 2000. The commercial operations provide a stream of revenue to help the group maintain a self-funding and internationally competitive level of R&D investment. They also provide us with a platform to commercialize certain of our own products and consequently retain a greater proportion of gross profit.

The activities of the group are accordingly carried out by two primary divisions, those of Celltech R&D and those of Celltech Pharmaceuticals (also referred to as the commercial operations).

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2003 strategic initiatives

During 2003 we undertook a number of important strategic initiatives which are discussed below.

Whilst having our own development operations, we also partner projects with major pharmaceutical and biotechnology companies. Such collaborations allow us to pursue a diverse portfolio within a sustainable level of research and development expenditure through the assumption of development funding by our partners. As a result of Pfizer s decision to return CDP 870 rights in the rheumatoid arthritis indication to us, we entered into active discussions with four potential parties relating to terms of a new collaboration and on May 18, 2004, we announced that we had entered into a collaboration with UCB for the global research, development and commercialization of CDP 870. Our board of directors considered the terms of the proposed UCB collaboration to be the optimal route for development and commercialization of CDP 870 given the terms proposed, the strength of UCB s specialist sales network and the relevant expertise of UCB s senior management. See Item 4.B. Information on the Company-Business Overview-Products in Registration or Clinical Development-CDP 870 for more information on the UCB collaboration.

We continued our policy of sourcing biological product production through long-term take-or-pay contracts with third party manufacturers. During 2003 we entered into long-term supply arrangements with Lonza, complementing our existing agreements with Sandoz and BioReliance.

Following a review of our research and development needs, we decided to close our Seattle novel target discovery facility, which was engaged in very early stage research. We now intend to source new disease targets through collaboration with external sources.

We acquired OGS in the first half of 2003 for £106.1 million. Our acquisition of OGS was followed by a substantial restructuring of that business, including closure of certain activities and businesses, with associated redundancies. In total, the acquisition has provided us with six high-quality oncology programs and the inherited storage disorder programs, Zavesca® and CDP 923.

As part of the strategic review of the group following the appointment in April, 2003 of Dr. Ando as CEO, we assessed the commercial opportunity for CDP 571, including on a named patient basis, and concluded that there is no significant patient population in which it would be uniquely helpful. As a consequence we wrote off all of the remaining stock of CDP 571 amounting to £7.5 million.

In light of the current environment for biotechnology IPO s, we have written off the value of our investment in NeoGenesis resulting in a non-cash exceptional charge of £7.0 million, reflecting the estimated realizable value of the shareholding in the event of a sale.

The commercial operations are an important contributing factor in the launch of CDP 870 in the Crohn s indication and future pipeline products. We established a US specialist sales force in 2002, which continued to forge important links with gastroenterologists through the promotion of Dipentum®. Furthermore during 2003 we transformed our European operations to focus on specialist prescribers through a substantial restructuring.

A further focus for the commercial operations is the streamlining of manufacturing operations, in particular through the increased utilization of the Rochester US facility. This led to the closure of a satellite manufacturing facility in Santa Ana, CA during 2003 with associated redundancy and closure costs.

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Financial

As described above, two primary divisions, Celltech R&D and Celltech Pharmaceuticals, carry out the activities of the group. Corporate costs are retained within the Celltech R&D operations but are separately analyzed below in the detailed discussions of our results.

Our revenues are derived from product sales and royalties. During the year, total sales increased to £353.3 million (2002: £329.6 million) an increase of 7% reflecting particularly strong growth from our antibody-engineering royalty revenues. Our total operating loss increased to £63.6 million from £44.7 million primarily as a result of exceptional items incurred in 2003. However, it is our view that the operational performance of the company is best assessed with reference to the financial results before taking account of either amortization of goodwill or exceptional items. For the same reason we also review and discuss corporate and general and administrative expenses before exceptional items and goodwill. Operating profits before exceptional items and goodwill increased to £49.5 million (2002: £49.0 million) as shown in the table set forth under the Results of Operations subheading on page 55 hereof. The increased sales performance was largely offset by:

- Increased expenditure on research and development as a result of our acquisition of OGS and progress with the development of CDP 870; and

- Increased corporate and general and administration expenses as a result of increased insurance premiums and changes to the constitution of the Board.

As discussed above, during 2003 Celltech implemented several strategic initiatives resulting in a number of exceptional charges. In total, during 2003 we recorded exceptional charges, which are discussed in detail below, of £40.5 million before tax and £8.8 million post taxation. The goodwill charge increased marginally to £94.2 million (2002: £93.7 million) reflecting the acquisition of OGS in May 2003. The loss for the year after tax correspondingly increased to £53.9 million (2002: loss £45.8 million).

Our cash and liquid resources at the end of 2003 were £155.0 million (2002: £105.1 million) and we had no loan balances outstanding. As at December 2003, we had committed and undrawn borrowing facilities of £75.0 million. The group generated cash from operating activities of £53.9 million (2002: £49.4 million) during the year. We believe our working capital is sufficient for our current requirements.

Factors affecting future results

Specific operational matters

There are a number of specific factors that will impact on Celltech s potential results for 2004 and beyond.

On May 18, 2004, our board of directors and UCB s board of directors announced that they had agreed to the terms of a cash offer for the entire issued and to be issued share capital of Celltech. Consistent with advice obtained from our financial advisors, Morgan Stanley and JP Morgan, our board deems such offer to be fair and reasonable and has unanimously recommended that our shareholders accept the offer.

The offer is contingent on several conditions being met, however, if such conditions are met and the offer becomes unconditional, UCB will become our sole shareholder. The integration of our business with that of UCB s will result in various changes to our current business structure, including, without limitation, the disposal of non-core businesses, restructuring of management as well as sales, manufacturing and/or research personnel, and re-prioritizing of certain core businesses and products. Such changes may affect our future results in a manner inconsistent with or not contemplated by our current forecasts and plans as set forth in this annual report.

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As a result of Pfizer s decision to return CDP 870 rights to us, we entered into discussions with certain parties relating to the terms of a new collaboration, and on May 18, 2004, announced that we had entered into a new agreement for CDP 870 with UCB. This agreement is not conditional upon the success of the offer for all the issued and to be issued share capital of Celltech by UCB. Other income, which is dependent upon progress with new and existing collaborations, will be significantly higher in 2004 than the £2.5 million achieved during 2003 due to the out licensing of CDP 870.

The near-term results of the group are dependent on the successful development and commercialization of CDP 870 in both the rheumatoid arthritis and Crohn s indications. We will have to support CDP 870 by substantial investment in a robust and innovative development program, and by providing the appropriate commercial infrastructure that will enable CDP 870 to compete effectively with established players.

Our antibody engineering royalties will be impacted by our 2001 settlement with Genentech. 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 first one-twelfth reduction applied to the royalty received in the last quarter of 2003.

We have a strong cough/cold franchise in the US with our lead products Tussionex® and Delsym®. A number of life cycle management initiatives are well underway which we anticipate will further strengthen our franchise, not least the anticipated launch of Codeprex® during the second half of 2004, in time for the 2004/2005 cough/cold season. The results of this franchise are materially impacted by the severity of the cough/cold season. The cough/cold season for 2003/2004 was characterized by high prescription demand in November and December followed by a sharp and sudden deterioration in January 2004. Whilst we currently anticipate a return to normal wholesaler demand levels in the second half of the year, this assumes a normal level of severity for the 2004/2005 season.

During 2003 we achieved sales of Zaroxolyn® of £25.3 million. Following the expiry of patent protection for Zaroxolyn® during 2002, we preemptively launched our own generic version of this product. During December 2003, the US FDA approved three generic competitor products. Due to the introduction of generic competition to Zaroxolyn®, Celltech no longer promotes this product and we anticipate a rapid decline in sales during 2004. However, we believe that this will be mitigated to a degree by our first-to-market generic.

The commercial operations will be launching Equasym® XL, the European trade name for our once-daily methylphenidate product during 2004. We are also investing in life cycle management initiatives for Dipentum®. It is anticipated that the resulting increased sales from these products will offset the sales decline from Zaroxolyn®.

Overall we anticipate a flat earnings profile, excluding the impact of the weakening US dollar noted below, ahead of the planned launch of CDP 870 in Crohn s disease during 2006. This reflects the anticipated growth in sales of our marketed products and other income from new product collaborations, offset by the tapering of antibody engineering revenues and our desire to maintain a competitive level of investment in research and development.

Future accounting developments

We anticipate that the adoption of International Accounting Standards (IAS s) as from January 1, 2005 will impact our future results. In particular, we will be required to expense the fair value of share options issued to staff through the profit and loss account. At the moment no charge arises under

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UK GAAP as options are granted at market value. A further draft IAS covering revenue recognition is currently under review and may impact our accounting for milestone payments and signature fees arising from product collaborations. IAS s also require an annual goodwill impairment review to be undertaken rather than automatically charging an annual amortization amount. Finally, IAS 39 introduces more stringent criteria for hedge accounting to be available in respect of forward cover.

Given the uncertainty regarding the implementation date and final form of these IAS s we intend to issue detailed guidance of their impact, including historic financials with our 2004 financial statements. To date we believe that adoption of IAS will move our UK GAAP results to be significantly closer to those that we present under US GAAP. However, it should be noted that the IAS Board has significant ongoing projects that may lead to additional changes which to date have not been quantified.

Other general factors

Our operating results are also affected by a number of other more general factors, the most important of which is competition from manufacturers of generic and patented products. Our business continued to be affected by competition and pressure to contain health care expenditure in a number of countries, particularly in the United States (our largest market) and Germany, as governments and other bodies increasingly seek to control costs.

In common with all pharmaceutical companies, our sales and income are dependent on the maintenance of the approved regulatory status of our products. In common with many pharmaceutical companies, our results are strongly influenced by sales of a relatively small number of products, in particular, Tussionex®, methylphenidate (including Metadate® CD), Delsym®, Dipentum®, Perenterol® and Coracten® and by royalty streams from sales of products manufactured and marketed by other companies, such as Remicade, Rituxan®, Herceptin®, Asacol® and Pertactin. Interruption in the supply of key raw materials or withdrawal of the regulatory approval of any of these products could materially adversely affect our future results.

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 arise in the US. During 2003, the average US dollar exchange rate versus sterling was $1.64, compared to $1.50 for 2002. However, during 2003 we were able to mitigate much of this negative impact as we had a number of forward exchange contracts in place. This resulted in a gain of £10.5 million, which has been recorded as a component of royalty income, based on the underlying transactions. Whilst we also have certain forward contacts in place for 2004, we estimate that each $0.10 adverse movement versus the average 2003 rate of $1.64 will impact our reported profit by £5.0 million. As at December 31, 2003 we had no forward cover for 2005 and beyond because we generally only enter into such transactions a maximum of 12-18 months in advance of the anticipated cash flow and then only if forward contracts favorable to our budget rate are available. In the second half of 2003 when we started to consider covering 2005 cash flows, no such favorable rates were available.

We maintain self-insurance on all product liability up to $13.5 million, as well as self-insurance in respect of methylphenidate of up to $20 million. Although we believe that we maintain sufficient product liability insurance, it is possible that costs and damages in excess of the amount insured could occur, particularly should there arise significant adverse developments involving Ionamin®, see Item 8 Financial Information Litigation .

Critical accounting policies

To understand Celltech s financial statements, it is important to understand its accounting policies. In preparing our financial statements in accordance with accounting principles generally accepted in the United Kingdom and the United States, management must make estimates and assumptions that impact the reported amount of revenues, expenses, assets, liabilities and related

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disclosures at the date of the financial statements and during the reporting period. Such judgments are subjective and can be complex. Actual outcomes could differ from those estimates. The group s critical accounting policies are as follows:

Income Recognition

Product sales

Revenue from product sales is recorded as turnover in our financial statements and valued at the invoiced amount (excluding sales and value added taxes) less estimated provisions for product returns, wholesaler charge backs and rebates given to Medicaid, managed care and other customers a particular feature in the US. Cash discounts for prompt payment are deducted from sales on an accrual basis. Revenue is recognized when title passes which is usually either on shipment or on receipt of goods by the customer depending on local trading terms. In the US, Celltech s policy is to allow wholesalers and pharmacies to return unused inventories six months prior and up to a year after shelf-life expiry which is typical in the US pharmaceutical industry. At point of sale, management estimates the quantity and value of goods that may ultimately be returned. Our returns provisions are based on actual experience over the preceding three years, although in certain situations, for example, a new product launch or at patent expiry, further judgment may be required. In particular at the end of 2003 Zaroxolyn® had generic competition and consequently we have had to apply considerable judgment to ensure that we held an appropriate level of provisions for returns and potential price equalization claims.

Similarly, at the time of invoicing sales, rebates/charge backs that could be paid out in the future are estimated. These rebates/charge backs typically arise from sales contracts with key pharmacy chains, managed care organizations, buying groups, hospitals and from the Medicaid program. The estimates are made by applying a consistent methodology on a customer-by-customer basis taking into account specific contract provisions and are reviewed frequently. Inevitably, however, such estimates involve judgments on future sales levels/distribution and the extent to which customers will access different incentive levels offered by the Company. Experience has shown the methodologies used provide a reasonable estimate of the actual outcomes.

A further feature of the US market is that sales can also be significantly influenced by wholesaler buying patterns. Wholesalers often place orders that are significantly larger than their normal levels of demand ahead of anticipated price increases, or they may seek to build up or run down their inventory levels for other reasons. If such speculative orders are shipped shortly before a quarter or year end it can result in revenue being recorded in the current financial period in respect of the following year s underlying demand and distortion of the financial results from one period to the next. Management tracks wholesaler inventory levels by product using its own and third party data and, where we believe that total sales have been materially distorted by such buying patterns appropriate disclosure is made in the financial review. We do not offer any incentives to encourage wholesaler speculative buying and attempt where possible to restrict shipments to underlying demand when such speculation occurs.

We offer cash discounts on prompt settlement of invoices and, once again, this is a particular feature in the US, although it is seen elsewhere. As noted above, we deduct cash discounts from revenue. Estimates of the likely uptake of cash discounts are made based on prior experience.

Income recognition criteria for non-product sales

Royalties are recorded as turnover and recognized 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.

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

Income associated with performance milestones is recognized 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 license 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 recognized immediately as a component of other income or deferred over the development or other appropriate period.

The group has to consider carefully whether income received in relation to the final three bullet points above can be treated as earned or has to be deferred, and this can require considerable judgement. This is particularly the case where there is a multiple element arrangement and/or Celltech retains certain obligations. Under UK GAAP, which is our primary GAAP, non-refundable license fee revenue is recognized when earned and when the group has no future obligation pursuant to the license fee, in accordance with the terms of the relevant contract. Contracts are evaluated based upon their terms and the individual elements, where appropriate, are accounted for separately.

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.

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 realizable value.

The group has to make a key judgment as to when to write off trial material stock. The key considerations applied revolve around the stock s scheduled utilization, possible alternative applications and potential realizable value from third parties. The group considers its current policy to be most appropriate as costs are charged as utilization takes place rather than upon shipment by the third party of bulk orders. An alternative policy would be to write off such stock as acquired. During 2003 we assessed that there was no potential value to be derived from our trial material stocks of CDP 571 and accordingly recorded an exceptional charge of £7.5 million.

Intangibles

Intangible assets include acquired licenses, patents, platform technologies and marketing rights, where these relate to specific compounds, products or know-how, which are being developed or used for commercial applications. Intangible assets acquired separately from a business are capitalized at cost. Intangible assets acquired as part of a business are capitalized separately where their value can be measured reliably; otherwise, they are treated as part of goodwill acquired with that business. Separately capitalized intangible assets are stated at cost less provision for amortization. Intangible assets in relation to licenses, patents and marketing rights are amortized 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. The assessment of intangible asset lives

is a matter of judgment. Estimated useful lives are reviewed annually and are generally presumed not to exceed 20 years. Platform technologies supporting the group s discovery

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research strategy are considered to have an indefinite life and consequently are subject to annual reviews and amortized as necessary if impairment is determined to have taken place. To date the only such acquired technology relates to SLAM (Selective Lymphocyte Antibody Method). The SLAM technology has been combined with our existing antibody technology in order to expand the breadth of the antibody pipeline and extend the repertoire of drug targets. The technology is seen as core to our research activities and we believe it will continue to benefit us for the foreseeable future.

Goodwill

Under UK GAAP 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 January 1, 1998 is capitalized and amortized over its useful economic life, normally not exceeding 20 years, on a straight-line basis. Prior to January 1, 1998 goodwill was written off directly to reserves and upon disposal would be charged to the profit and loss account.

Under US GAAP goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances, such as an adverse change in business climate, indicate that the goodwill or other intangible assets may be impaired. Impairment is recorded if the fair value of goodwill is less than its carrying amount. The fair value determination used in the impairment assessment requires estimates based on prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions.

As of December 31, 2003 our goodwill had a carrying amount of £306.7 million under UK GAAP and £409.9 million under US GAAP.

Contingent Liabilities

The group has future operating obligations including take or pay contracts. No account is made for such future obligations unless they are considered to be loss making, in which case provision is made for their estimated fair value.

The group is involved in certain legal proceedings arising in the normal course of its business, as discussed in Note 29 of Notes to the Consolidated Financial Statements of Celltech. Provision is made in the accounts for all liabilities that might be reasonably expected to materialize from these claims.

Reserves made in our financial statements for such contingencies are a matter of judgment and we reach our conclusions having regard to contract terms, past experience and the opinions of our professional advisors.

Pensions

The group operates contributory and non-contributory defined benefit and defined contribution pension schemes covering the majority of its employees.

For our defined contribution plans the group contributes a fixed rate of salary to the individual plans of the 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.

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For such plans, several statistical (e.g. withdrawal and mortality rate measures) and other factors, which attempt to anticipate future events, are used in calculating the expense and liability. These factors include assumptions about the discount rate, expected return on plan assets and rate of compensation increases. We have included pensions as a critical accounting policy as the assumptions and statistical rates used to calculate the expense and liability may vary materially from those actually experienced.

The charge, under UK GAAP, for our defined benefit schemes in 2004 was £2.4 million.

Taxation

The group has operations in tax jurisdictions in a number of places in Europe and the United States and is subject to audit in these jurisdictions. Tax audits by their nature are often complex and can require several years to resolve. Accruals for tax contingencies require management to make estimates and judgments with respect to the ultimate outcome of a tax audit. Actual results could vary from these estimates. Accruals for tax contingencies are included within our deferred tax liability provision and totaled £34.1 million as at December 31, 2003. During 2003 we were able to release £28.5 million of such liabilities to the profit and loss account as an exceptional item following resolution of most of the outstanding issues with tax authorities in various jurisdictions.

The group evaluates the need for a deferred tax asset valuation allowance by assessing whether it is more likely than not that it will realize its deferred tax assets in the future. The assessment of whether or not a valuation allowance is required often requires significant judgment including the forecast of future taxable income and the evaluation of tax planning initiatives. Adjustments to the deferred tax valuation allowance are made to earnings in the period when such assessment is made.

Recently issued accounting standards

The standards discussed below are in relation to our US GAAP financial results.

Our primary financial statements are prepared in accordance with UK GAAP. No significant new standards were issued during 2003 requiring adoption nor are any pending prior to the group s IAS on January 1, 2005. The main implications of IAS are set out in Item 5.A. Operating and Financial Review and Prospects Operating Results Future Accounting Developments.

New accounting standards adopted

SFAS No. 143 Accounting for Asset Retirement Obligation addresses the accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. It is effective for accounting periods beginning on or after June 15, 2002. The adoption of SFAS 143 did not have a material effect on the results or net assets of Celltech.

SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities , issued on July 30, 2002, requires costs associated with exit or disposal activities to be recognized when the costs are incurred rather than at the date of commitment to an exit or disposal plan. The provisions are effective for disposals initiated after December 31, 2002 and restatement of prior periods is not required. The group applied the principles of SFAS 146 to the closure of the Seattle site announced in the final quarter of 2003 and closed in the first quarter of 2004. The adoption of SFAS 146 resulted in us not recognizing closure costs of £2.0 million in respect of the Seattle site in 2003 and instead recognizing them as incurred in 2004.

SFAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities that was issued on April 30, 2003, amends and clarifies accounting for certain derivative instruments (particularly contracts with certain embedded derivative instruments) and hedging activities

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under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities . Except where its provisions clarify SFAS No. 133 implementation issues previously effective, the standard applies prospectively for contracts entered into, and hedging activities designated after, June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the results or net assets of Celltech.

SFAS No. 132 (Revised 2003) Employers Disclosures about Pensions and Other Post-Retirement Benefits was issued on December 23, 2003 and is effective, subject to certain exemptions, for fiscal years ending on or after December 23, 2003. Celltech has complied with the new requirements in this Annual Report and Form 20-F Information.

New accounting standards not yet adopted

FIN No. 46R Consolidation of Variable Interest Entities is intended to address perceived weaknesses in accounting for special purpose or off-balance sheet entities and provides guidance on identifying the party with a controlling financial interest resulting from arrangements or financial interests as opposed to voting rights. If a party has a controlling financial interest in a variable interest entity (VIE) then the assets, liabilities and results of the VIE should be included in the consolidated financial statements of the party. FIN No. 46R applied to all VIEs or potential VIEs referred to as special purpose entities for periods ending on or after December 15, 2003. Adoption for all other entities is required for periods ending on or after March 15, 2004.

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Results of Operations

The following table sets forth selected historical income statement data for the periods indicated. This information has been derived from our audited financial statements included elsewhere in this annual report. The financial results of OGS have been consolidated within our financial results with effect from April 14, 2003. You should read this table in connection with this Item 5, the description of our business in Item 4 above and the financial statements, related notes and other financial information included elsewhere in this annual report. Our financial statements are prepared in accordance with UK GAAP which differs from US GAAP. The significant difference applicable to us are set out in Note 30 to the Consolidated Financial Statements of Celltech included elsewhere in this annual report.

	December 31 2003	December 31 2002	December 31 2001
		£ million	
Sales	**353.3**	**329.6**	**303.1**
Cost of sales	(101.5)	(94.7)	(83.5)
Gross profit	**251.8**	**234.9**	**219.6**
Gross margin	71%	71%	72%
Expenses:			
Corporate and general administrative expenses	*(31.3)*	*(26.8)*	*(24.9)*
Exceptional items	*(18.9)*		*(7.8)*
Goodwill amortization	*(94.2)*	*(93.7)*	*(92.6)*
Total corporate and general administrative expenses	(144.4)	(120.5)	(125.3)
Investment in R&D	(106.1)	(95.7)	(90.7)
Selling, marketing and distribution expenses	(67.4)	(71.5)	(78.6)
Total expenses	**(317.9)**	**(287.7)**	**(294.6)**
Other income	2.5	8.1	18.8
Total operating loss	**(63.6)**	**(44.7)**	**(56.2)**
Losses on termination of operations	(14.6)		
Provision against fixed asset investment	(7.0)		
Net interest receivable	2.7	1.4	3.6
Taxation	28.6	(2.5)	(2.9)
Net loss	**(53.9)**	**(45.8)**	**(55.5)**
By reporting divisions:			
Sales to third parties			
Celltech R&D royalties	94.1	76.7	61.4
Celltech Pharmaceuticals product sales	259.2	252.9	241.7
Total sales to third parties	**353.3**	**329.6**	**303.1**
Gross Profit			
Celltech R&D royalties	82.1	69.8	47.1
Celltech Pharmaceuticals product sales	169.7	165.1	172.5

Total gross profit	**251.8**	**234.9**	**219.6**
Total operating loss	**(63.6)**	**(44.7)**	**(56.2)**
Add back:			
Exceptional items	18.9		7.8
Goodwill amortization	94.2	93.7	92.6
Total operating income for management reporting purposes (as discussed on p. 47)	**49.5**	**49.0**	**44.2**
Operating income			
Celltech R&D	(23.0)	(15.5)	(25.0)
Celltech Pharmaceuticals	72.5	64.5	69.2
Total operating income by reporting divisions	**49.5**	**49.0**	**44.2**

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Year ended December 31, 2003 compared to year ended December 31, 2002

The following compares our results in the year ended December 31, 2003 to those of the year ended December 31, 2002. In discussion of our sales performance we use constant exchange rates due to the significant movement in the UK sterling to dollar exchange rate during 2003. Our analysis is divided as follows: sales and gross profit by segment; operating expenses; exceptional items; and net income.

Sales And Gross Profit By Segment

The table below sets out the turnover and gross profit by Celltech segment:

	December 31 2003	December 31 2002	% change
	£million		
Turnover:			
Celltech R&D royalties	94.1	76.7	23
Celltech Pharmaceuticals product sales	259.2	252.9	2
Total	**353.3**	**329.6**	**7**
Gross profit:			
Celltech R&D royalties	82.1	69.8	18
Celltech Pharmaceuticals product sales	169.7	165.1	3
Total	**251.8**	**234.9**	**7**
Gross margin	**71%**	**71%**	**n/a**

Celltech R&D

The table below sets out royalty income by major stream earned in 2003 and 2002.

	December 31 2003 as reported	December 31 2002 as reported	Impact of exchange	December 31 2002 at constant exchange	% change reported basis	% change constant rate basis
	£million					
Antibody engineering	62.7	53.1	(4.3)	48.8	18	28

Pertactin	8.6	11.0	(0.9)	10.1	(22)	(15)
Asacol®	6.1	7.6	(0.6)	7.0	(20)	(13)
Mylotarg	3.1	2.7	(0.2)	2.5	15	24
Other	3.1	2.3	(0.2)	2.1	35	48
Total royalties pre exchange gains on forward contracts	**83.6**	**76.7**	**(6.2)**	**70.5**	**9**	**19**
Exchange gains on forward contracts	10.5		10.5		14*	
Total royalties	**94.1**	**76.7**	**4.3**		**23**	
Cost of goods sold - on royalties	(12.0)	(10.6)				
- exchange gains		3.7	(3.7)			
Gross profit	**82.1**	**69.8**	**0.6**			
Gross profit % of total royalties	87%	91%				

* This percentage represents the growth in royalty revenue attributable to exchange gains on forward contracts.

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During 2003 our royalty income continued to produce strong overall growth as indicated in the table above.

If we adjust the royalties received during 2002 to a constant exchange rate with 2003 the growth would have been 19% (excluding exchange gains on forward contracts). In discussing individual royalty stream performance below we will provide the growth/decline achieved based on a constant exchange rate in addition to that indicated in the table above. In calculating the growth/declines based on a constant exchange rate basis, we assume that the average exchange rates for the US dollar ($1.64:£1.00) and the Euro (1.45:£1.00), which were applicable in 2003 had also applied during 2002 and/or will also apply for 2004.

In 2003 royalty income included £10.5 million of exchange gains made on forward contracts. As a UK company earning principally US dollars we enter into forward exchange contracts to swap US dollars into sterling. We aim to have the currency swaps take place at the same time as our main antibody engineering revenues are received. In 2003 as the US dollar considerably deteriorated in value against sterling, these contracts enabled the group to swap its surplus US dollars at rates favorable to those prevailing on the date and correspondingly make additional profits. As the swap is primarily undertaken as a hedge of our royalty stream we have presented this income as a component of royalty income. In 2002 such exchange gains were recorded as a reduction of the cost of goods sold. We consider that the revised 2003 presentation reflects more appropriately the nature of the hedging transaction.

The key royalty stream trends are discussed below:

Antibody engineering: £62.7 million (+18% actual, + 28% constant exchange rate). The growth was principally driven through the growth of Remicade®. Remicade®, a novel monoclonal antibody therapy indicated to treat the symptoms of Crohn s disease and rheumatoid arthritis, achieved sales of $1.7 billion during 2003, a year-on-year growth of 33%. The product continued to maintain its lead position in the growing autoimmune market. The overall growth of our antibody engineering royalty stream was achieved despite 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 net royalties receivable by the group 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% in 2004 and 62% in 2005 compared to what Celltech would originally have received. We expect this reduction to be partly mitigated by the anticipated growth in sales of the underlying products, in particular Remicade®, due to continuing strong market growth.

Pertactin®: £8.6 million (-22% actual, -15% constant exchange rate). Our year-on-year revenues have been impacted by the terms of a settlement between GlaxoSmithKline and Aventis Pasteur regarding a patent dispute over whether Aventis Pasteur s vaccines infringed certain patents we licensed to GlaxoSmithKline. The matter was eventually resolved with the granting by GlaxoSmithKline of a sub-license to Aventis Pasteur. On a constant exchange rate basis we do not anticipate any significant change to this royalty stream during 2004.

Asacol®: £6.1 million (-20% actual, -13% constant exchange rate). During 2002 there was a step down of the royalty rate received by Celltech on North American sales, the full year impact of which was felt in 2003. On a constant exchange rate basis we do not anticipate any significant change to this royalty stream during 2004.

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Celltech Pharmaceuticals

The table below sets out the performance of our major products:

	December 31 2003 as reported	December 31 2002 as reported	Impact of exchange	December 31 2002 at constant exchange	% change reported basis	% change constant rate basis
		£million				
Key promoted brands:						
Tussionex® (US)	68.1	71.3	(5.7)	65.6	(4)	4
Metadate® CD (US)	20.2	18.0	(1.4)	16.6	12	22
Delsym® (US)	18.0	14.3	(1.2)	13.1	26	37
Dipentum® (US/Europe)	17.1	4.6	(0.1)	4.4	272	289
Perenterol® (Germany)	7.8	7.1	0.7	7.8	10	
Coracten® (UK)	7.1	6.3		6.3	13	13
Total key promoted brands	**138.3**	**121.6**	(7.7)	113.8	14	22
Other major products:						
Zaroxolyn® (US)	25.3	28.5	(2.3)	26.2	(11)	(3)
Generic Methylphenidate (US/Europe)	9.8	12.6	(0.8)	11.7	(22)	(16)
Ionamin® (US)	5.0	5.5	(0.4)	5.1	(9)	(2)
Semprex D® (US)	4.0	2.6	(0.2)	2.4	54	67
Pediapred® (US)	1.4	3.9	(0.3)	3.6	(64)	(61)
Other products (US/Europe)	75.4	78.2	3.0	81.4	(4)	(7)
Total other products	**120.9**	**131.3**	(1.0)	130.4	(8)	(7)
Total product sales	**259.2**	**252.9**	(8.7)	244.2	2	6
Cost of sales	(89.5)	(87.8)				
Gross profit	**169.7**	**165.1**				
Gross profit % of total sales	65%	65%				

The table above indicates a modest growth overall for our product sales of 2% year-on-year. Adjusting the product sales to a constant exchange rate, the growth would have been 6%. In discussing individual product performance we will provide the growth achieved based on a constant exchange rate in addition to that indicated in the table above. In calculating the growth/declines based on a constant exchange rate basis, we assume that the average exchange rates for the US dollar ($1.64:£1.00) and the Euro (1.45:£1.00), which were applicable in 2003 had also applied during 2002 and/or will also apply for 2004.

The key product trends are discussed below:

Tussionex®: £68.1 million (-4% actual, + 4% constant exchange rate). The underlying performance of Tussionex® our 12-hour hydrocodone-based anti-tussive was very strong, increasing market share by 11% and total prescriptions by 8%. Wholesaler stock levels (pipeline stocks) were estimated at approximately 2.0 months as at December 31, 2003 compared to 3.3 months as at December 31, 2002. The cough/cold season for 2003/2004 was characterized by very strong prescription performance in November and December 2003 followed by a sharp deterioration in January and February 2004. Total prescriptions

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written for Tussionex® during 2003 were 3.2 million of which 0.6 million were written in December alone. January and February 2004 demand fell to approximately 0.3 million per month leading to wholesalers significantly reducing orders. Whilst we currently anticipate a return to normal wholesaler demand levels in the second half of 2004, our sales will be dependent on the severity of the forthcoming cough/cold season.

Metadate® CD: £20.2 million (+ 12% actual, + 22% constant exchange rate). This is our once-daily methylphenidate product sold in the US. The growth in sales was in large part due to the introduction of two new dosage strengths, 10 mg and 30 mg, which helped to compliment our existing 20 mg capsules. The product also continued to benefit from the positive results from a head-to-head study against the current market leader in the once-daily methylphenidate segment that we announced in 2002. Full year prescriptions totaled 0.7 million (2002: 0.7 million). Pipeline stocks were estimated at approximately 1.0 month as at December 31, 2003 compared to 1.7 months at the end of December 31, 2002. Despite static prescriptions in a competitive market place and a lower level of pipeline stocks at the end of the year we were able to grow revenues through price increases. Due to the launch of the 10 mg and 30 mg dosages we anticipate strong growth of this product during 2004.

Delsym®: £18.0 million (+26% actual, + 37% constant exchange rate). This is our 12-hour OTC anti-tussive. The product responded well during 2003 to life cycle management initiatives and proactive brand and channel managing. As with Tussionex® the performance of this product is dependent on the severity of the cough/cold season, but, subject to this, in underlying US dollar terms we expect to continue to see growth in this product based on further life-cycle management initiatives such as the introduction of plastic bottles, new flavors, a sugar free option, etc.

Dipentum®: £17.1 million (+ 272% actual, + 289% constant exchange rate). Dipentum® is our treatment for ulcerative colitis, which we acquired from Pharmacia in the second half of 2002. Thus the primary driver for the sales growth noted above was having the product for a full year during 2003. This product has provided us with the opportunity to forge relationships with gastroenterologists ahead of any launch of CDP 870 in the Crohn s indication. We consider that the product has responded well to our active promotion of the brand through our recently established specialist sales forces. Dipentum® was not being promoted by Pharmacia and was a fast declining brand; our success to date has primarily been to stop this decline. Prescriptions in the US totaled 76,000 for 2003, compared to 88,000 for 2002 (full year). However, prescriptions were higher at the start of 2002 then at the end of that year. Dipentum® will lose patent protection in August 2004, but we are currently unaware of any potential generic launch in the next two years. We have a number of life cycle initiatives planned for the product that we expect will drive prescription growth in the second half of 2004.

Perenterol®: £7.8 million (+ 10% actual, nil growth constant exchange rate). Perenterol® is our anti-diarrhea product and is sold only in Germany. Sales in 2003 were in line with those during 2002. However, Germany introduced a new health care reform act effective January 1, 2004. Perenterol® is an OTC product and the key impact of the act on such products is that non-prescription drugs for adults will no longer be reimbursable. Consequently, we have switched our promotional efforts for this product from general practitioners to pediatricians and large pharmacy chains. Despite these initiatives, we anticipate a decline in sales of Perenterol® during 2004 on an underlying Euro basis.

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Coracten®: £7.1 million (+ 13% actual, + 13% constant exchange rate). This is a branded generic version of nifedipine and is sold in the UK for treatment of high blood pressure. The product responded well during the year to strong promotional efforts. Prescriptions dispensed for Coracten® rose by 12% to over 732,000 during 2003. The proportion of product prescriptions written by brand was over 57% (based on our total nifedipine sales) compared to 52% in 2002. We anticipate a similar level of sales growth during 2004 to that achieved in 2003.

Zaroxolyn® (metolazone): £25.3 million (- 11% actual, -3% constant exchange rate). This is a diuretic sold in the US for the treatment of edema associated with congestive heart failure. Following the expiry of patent protection for Zaroxolyn® during 2002, we preemptively launched our 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 generic competition to Zaroxolyn®, we no longer promote this product and anticipate a rapid decline in sales during 2004, although this will be partly offset by sales from our first-to-market generic. As at the end of 2003 we also significantly increased our reserves for potential returns and price equalization claims, in accordance with our income recognition policy, as a result of the product having generic competition. Zaroxolyn® prescriptions actually fell by 10% during the year to 619,000 (2002: 690,000). However we increased prices by 33% beginning July 1, 2003. Thus, despite the prescription decline and reserves adjustments required at year-end, the sales decline overall was only 3% for the year.

Other products: £75.4 million (-4% actual, -7% constant exchange rate). This reflects the cessation of certain co-promotion agreements, which reduced revenues by approximately £5.5 million from 2002. In particular, as part of the disposal of the Speke vaccines facility in October 2002 to PowderJect, we retained a 3-year contract to provide sales support. This contract ended during 2003 resulting in a year-on-year decline of over £2.0 million. Additionally, other product sales were adversely impacted by the introduction of pharmacy rebates of 6% on prescription products in Germany.

Overall on a constant exchange basis we expect to see a small percentage decrease in product sales in the forthcoming year, with the large declines in Zaroxolyn® and Germany being offset by:

Continued growth in Tussionex® and Dipentum®.

The anticipated launch of Codiprex®, the first 12-hour codeine based anti-tussive, during the second half of 2004 in time for the 2004/2005 cough/cold season.

New product acquisitions.

Gross profit

The profit on royalties reduced to 87% from 91%, as a result of the treatment of exchange gains on forward contracts in 2002. Had the exchange gains in 2002 been allocated to turnover, as they were in 2003, the margin in both years would have been 87%.

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The commercial operations profit remained the same in 2003 as 2002 at 65%. The key factors underlying this performance were:

- Increased year-on-year insurance charges (£2.7 million).
- Increased reserves required on Zaroxolyn®, due to the product having generic competition.

The negative factors were offset by:

- The closure of the Santa Ana manufacturing facility (annualized savings anticipated of £2.6 million).
- Increased sales of high margin products such as Tussionex® and Dipentum® at the expense of lower margin non-promoted products.

For the group as a whole the gross profit remained steady at 71%. Due to a combination of the factors below:

- The increased percentage of our revenues arising from royalties, which tend to have considerably higher margins than product sales.
- A decline in the margin arising on royalties.
- The static margin performance attributed to the commercial operations.

We do not anticipate any significant overall change in the gross margin rate for 2004. The gross margin percentage achieved on royalties will be lower due to increased cost of sales arising on sales of Remicade®. Subsequent to the Boss patent settlement with Genentech, the cross royalties payable on Remicade®, charged to cost of sales, started to increase by one-twelfth per quarter as from the final quarter of 2003. However, we anticipate that this reduction will be offset by a margin improvement from the commercial operations due to the continuing focus on high margin promoted products and the full year impact of the Santa Ana closure.

Operating Expenses/Income

The table below sets out our operating expenses income for 2003 compared with 2002:

	December 31 2003	December 31 2002	% change
	£million		

Corporate and general administrative expenses	*(31.3)*	*(26.8)*	*17*
Exceptional items	*(18.9)*		*n/a*
Goodwill amortization	*(94.2)*	*(93.7)*	*1*
Total corporate and general administrative expenses	(144.4)	(120.5)	20
Investment in R&D	(106.1)	(95.7)	11
Selling, marketing and distribution expenses	(67.4)	(71.5)	(6)
Total operating expenses	**(317.9)**	**(287.7)**	**10**
Other income	2.5	8.1	(69)

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By division (excluding exceptional items and goodwill), which are separately discussed below:

	Celltech Pharmaceuticals		R&D	
	December 31 2003	December 31 2002	December 31 2003	December 31 2002
	£million		£million	
Gross profit	**169.7**	**165.1**	**82.1**	**69.8**
Corporate and general administrative expenses	(17.9)	(15.9)	(13.4)	(10.9)
Investment in R&D	(12.4)	(13.2)	(93.7)	(82.5)
Selling, marketing and distribution expenses	(67.4)	(71.5)		
Other income	0.5		2.0	8.1
Operating result	**72.5**	**64.5**	**(23.0)**	**(15.5)**

Corporate and general administrative expenses

As indicated in the tables above, corporate and general and administrative expenses increased by 17% during 2003 compared with 2002 (excluding exceptional items and goodwill which are separately analyzed below). This was particularly due to the factors noted below:

Changes to the Board. During the year we appointed a new Chief Executive and this resulted in certain one-off payments to Dr. Ando and his predecessor Dr. Fellner, as detailed in Item 6 Directors, Senior Management and Employees Compensation . In total and including executive search fees, such costs contributed approximately £1.2 million of the year-on-year increase.

Increased insurance costs. 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. In total insurance costs charged to corporate and general administrative increased during 2003 by £1.0 million.

The remainder of the increase was due to general inflation factors and fees in respect of potential corporate transactions that were not pursued (£0.5 million).

We expect to be able to decrease general and administrative costs during 2004 due to a reduction in Board-related and transaction costs.

On a divisional basis the general and administrative costs of the commercial operations were primarily impacted by the insurance charge increases. Celltech R&D records central corporate expenses within its total and these increased to £9.2 million in 2003 from £7.3 million in the prior year, mainly as a result of the changes to the Board.

Exceptional Items

During 2003 we undertook a number of important strategic initiatives, some of which resulted in exceptional expenditure. A breakdown of the exceptional charges for the year is detailed below:

	December 31 2003 £million
Operating exceptional charges	
European sales force restructuring	9.0
Write-off CDP 571 stock	7.5
Development restructuring	1.5
Thiemann asset write-down	0.9
Total operating exceptional charge	**18.9**
Loss on termination of operations	
Closure of Seattle research operations	5.6
Closure of Santa Ana manufacturing facility	4.5
OGS closure costs	4.5
Total loss on termination of operations	**14.6**
Provision against NeoGenesis investment	**7.0**
Total exceptional items before taxation	**40.5**
Exceptional tax items	
Partial release of tax provision	(28.5)
Tax credit on exceptional items	(3.2)
Total exceptional tax items	**(31.7)**
Total exceptional items	**8.8**

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Of the total exceptional charges before tax of £40.5 million, the total expected cash impact is £20.0 million, of which £8.7 million was spent during 2003. We do not anticipate any further exceptional charges in 2004 related to the activities detailed above.

The principal exceptional items are discussed in more detail below:

European sales force restructuring. A restructuring of the UK, French and German sales force was completed during 2003 and a restructuring of the Spanish operations was completed in the first quarter of 2004. The purpose of the restructurings was to change our operations from primary care to specialist focus. The result of the restructuring was a net loss of 153 representatives, leaving a total of 140 in the affected territories. The annualized cost saving associated with the restructuring is approximately £5.0 million. As detailed in the discussion of other expenditure above, we intend to re-invest these savings in promotional expenditures ahead of product launches and in further enhancing our commercial capabilities.

Write-off of CDP 571 stocks. As part of our strategic review following the appointment of Dr. Ando as CEO in April, 2003, we assessed the commercial opportunities for CDP 571, including on a named patient basis and concluded that there is no significant patient population in which it would be uniquely helpful. As a consequence we wrote off all of the remaining stocks of CDP 571 amounting to £7.5 million.

Closure of Seattle research operations. Following a review of our long-term R&D needs, we decided to close the Seattle novel target discovery facility, engaged in very early stage research, in the second half of 2003. Certain research activities previously carried out in Seattle will be transferred to our Slough and Rochester facilities, with the bulk of the annual savings of approximately £11.0 million to be re-invested in our early stage development pipeline and late stage research activities. The closure costs reflected redundancy costs, short-term lease commitments and the write-down of the remaining book value of the facility to £nil.

Closure of Santa Ana manufacturing facility. A key focus for the commercial operations is the streamlining of manufacturing operations, in particular through the increased utilization of the Rochester US facility. This led to the closure of a satellite

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manufacturing facility in Santa Ana, CA 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. The annualized savings arising from the closure are approximately £2.6 million.

OGS closure cost. Following our acquisition of OGS in the first half of 2003 for £106.1 million, we undertook a substantial restructuring of this business, including closure of certain activities and facilities with associated redundancies. The total closure costs were £4.5 million. OGS s continuing operations have been recorded as part of our operating results from April 14, 2003, the effective date of control.

Provision against NeoGenesis investment. In 2001, we 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 light of the current environment for biotechnology IPO s we have written down this total investment to £nil. This is due to the shareholder structure, which allows series A-D shareholders to recover their investment before series E investors. Both our initial holding and that inherited with OGS are part of the series E shares. We and other series E shareholders would only recover our investments if the sales proceeds for NeoGenesis exceeded $33.0 million, which in the current market we consider unlikely. Our initial holding has been charged as an exceptional item, whereas the OGS holding was written off as a fair value adjustment to the acquired assets of that company.

Partial release of tax provision. The release of £28.5 million reflects the resolution of most of the outstanding issues through to 2000 with tax authorities in various jurisdictions. A large proportion of these reserves were held by Medeva at the date of their acquisition by Celltech in January 2000. Whilst for UK GAAP presentation this entire release is taken as an exceptional credit, in the presentation of our US GAAP figures, to the extent the release related to liabilities inherited by Celltech on the acquisition of Medeva, the adjustment is recorded as an amendment to the goodwill figure that arose on acquisition. See Note 30 of Notes to Financial Statements for a discussion of the significant differences between UK GAAP and US GAAP.

Goodwill

The goodwill charge increased to £94.2 million from £93.7 million in 2002. As discussed within our critical accounts policy notes, under UK GAAP amortization is still charged on an annual basis.

The goodwill amortization charge reflects a full year of ownership of Medeva (£88.3 million), Thiemann (£4.7 million) and Cistron (£0.7 million) and an eight-month charge in respect of OGS (£0.5 million). Correspondingly we expect, subject to any further acquisitions or impairment of value, to see a small increase in the goodwill charge for 2004 to reflect a full year of OGS ownership.

Selling, marketing and distribution expenses

Selling, marketing and distribution expenses are recorded by the commercial operations. The table above indicates a decrease in such costs of some 6%. However as a large proportion of these costs are incurred in the US and Europe, a more meaningful reduction is 3% which is based on a constant exchange rate analysis. The remaining decrease was as a result of the sales force reductions, discussed within exceptional items above, particularly those in the UK and France, which were effected in the early part of the year. For 2004, we anticipate, subject to exchange rate fluctuations, maintaining these costs at their current levels with the full year effect of sales force reductions being offset by increased expenditure on planned 2004 product launches (Codeprex® & Equasym® XL) and in enhancing our commercial capability and activities ahead of the projected launch of CDP 870.

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Investment in research and development

The bulk of research and development expenditure is recorded within the Celltech R&D division. The costs recorded in Celltech Pharmaceuticals tend to be in relation to line extensions and ongoing regulatory compliance.

Overall our investment in research and development increased to £106.1 million from £95.7 million (+11%). The total external costs incurred were £29.5 million (2002: £24.5 million). The remaining costs relate to internal costs of research and development. At the end of 2003 we closed our Seattle early stage research facility and this will result in annual savings of approximately £11.0 million. However, we expect to re-invest this saving in our early stage development pipeline and late stage research activities.

During 2003 the bulk of our external expenditure was in relation to CDP 870 in the rheumatoid arthritis indication (on which we had a cost sharing relationship with Pfizer) and CDP 870 in the Crohn s indication. In total for 2004 we anticipate a 10-20% increase in expenditure on research and development primarily as a result of the progression of CDP 870 in the Crohn s indication to final phase III studies. As noted above we anticipate that the savings from the Seattle closure will be largely absorbed by increased expenditure on our early stage development pipeline.

For a more detailed description of our research activities on a project-by-project basis see Item 4 Information on the Company Business Overview Research Collaborations and Note 10 of Notes to the Financial Statements of Celltech.

Other Income

Other income of £2.5 million was markedly lower than that achieved in 2002 of £8.1 million. During 2002 we received £6.4 million ($10 million from Pfizer on the initiation of Phase III studies in CDP 870 RA), whilst in 2003 no significant milestone payments were triggered on our collaborations.

Other income is dependent upon progress with new and existing collaborations and can fluctuate significantly year-on-year. However, other income will be substantially higher in 2004 compared with 2003 due to the out-licensing of CDP 870 to UCB, following Pfizer s termination of its participation.

Net Income

The following table sets forth selected income statement data for the periods indicated:

	December 31 2003	December 31 2002	% change

	£ million		
Group operating loss	**(63.6)**	**(44.7)**	**42%**
Losses on termination of operations*	(14.6)		n/a
Provision against fixed asset investment*	(7.0)		n/a
Net interest receivable	2.7	1.4	93%
Taxation ordinary	(7.8)	(7.6)	3%
Taxation exceptional	31.7		n/a
Taxation goodwill	4.7	5.1	(8)%
Loss on ordinary activities	**(53.9)**	**(45.8)**	**18%**

* see discussion of exceptional items above

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Net interest receivable

Over the course of the year we increased our cash and liquid resources from £105.1 million to £155.0 million. Furthermore, in connection with our acquisition of OGS, we moved significant funds from the US to the UK. With the acquisition we then inherited OGS s cash and liquid resources of £126.6 million, which were primarily invested in sterling.

This combination of a higher average level of cash coupled with a move in our holding from US dollars to sterling, where interest rates are currently higher, led to the increase in our net interest income.

We expect a higher level of interest for 2004 reflecting our year-end cash and liquid resource position and our cash generative operations.

Taxation

The tax credit for 2003 was £28.6 million compared with a tax charge of £2.5 million in 2002. Within these figures for 2003 were deferred tax credits on acquired goodwill and other exceptional tax credits of £36.4 million (2002: £5.1 million) leaving an underlying tax charge of £7.8 million compared with £7.6 million in 2002.

Year ended December 31, 2002 compared to year ended December 31, 2001

The following compares our results in the year ended December 31, 2002 to those of the year ended December 31, 2001. Our analysis is divided as follows: sales and gross profit by segment; operating expenses; and net income.

Sales And Gross Profit By Segment

The table below sets out the turnover and gross profit by Celltech segment:

		December 31 2002	December 31 2001	% change
		£million		
Turnover:				
Celltech R&D	royalties	76.7	61.4	25
Celltech Pharmaceuticals	product sales	252.9	241.7	5

Total	**329.6**	**303.1**	**9**
Gross profit:			
Celltech R&D royalties	69.8	47.1	48
Celltech Pharmaceuticals product sales	165.1	172.5	(4)
Total	**234.9**	**219.6**	**7**
Gross margin	**71%**	**72%**	

Celltech R&D

The table below sets out royalty income by major stream earned in 2002 and 2001.

	December 31 2002	**December 31 2001**	**% change**
	£million		
Antibody engineering	53.1	37.1	43
Pertactin	11.0	8.8	25
Asacol®	7.6	10.2	(25)
Mylotarg	2.7	4.2	(36)
Other	2.3	1.1	109
Total royalties	**76.7**	**61.4**	**25**
Cost of goods sold - on royalties	(10.6)	(14.3)	(26)
- exchange gains	3.7		n/a
Gross profit	**69.8**	**47.1**	**48**
Gross profit % of total royalties	91%	77%	

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Our royalty income grew to £76.7 million from the £61.4 million achieved in 2001. The key component of this growth was our antibody engineering (formerly Boss patent) royalty stream, which grew to £53.1 million from the £37.1 million achieved for the year ended December 31, 2001. This was due to the continued growth of the underlying antibody products, particularly Remicade. However, the settlement of the Boss dispute with Genentech will result in a gradual decline of our US antibody engineering royalty rates until the original scheduled expiration of the Boss patent in March 2006.

In 2002 we recorded exchange gains on forward contracts as a reduction in the cost of goods sold. As a UK company earning principally US dollars we enter into forward exchange contracts to swap US dollars into sterling. We aim to have the currency swaps take place at the same time as our main antibody engineering revenues are received. In 2002 as the US dollar deteriorated in value against sterling these contracts ensured that the group was able to swap its surplus US dollar at rates favorable to those prevailing on the date and correspondingly make additional profits. In 2003 we changed the presentation of such gains and have classified these as a component of royalty income. We consider that the revised 2003 presentation reflects more appropriately the nature of the hedging transaction. During 2001 neither material gain nor loss was made on such contracts.

Celltech Pharmaceuticals

The table below sets out the performance of our major products:

	December 31 2002	December 31 2001	% change
	£ million		
Key promoted brands:			
Tussionex® (US)	71.3	64.1	11
Metadate® CD (US)	18.0	8.6	109
Delsym® (US)	14.3	9.9	44
Dipentum® (US/Europe)	4.6		n/a
Perenterol® (Germany)	7.1	1.5	373
Coracten® (UK)	6.3	5.4	17
Total key promoted brands	**121.6**	**89.5**	**36**
Other major products:			
Zaroxolyn® (US)	28.5	30.3	(6)
Generic Methylphenidate (US/Europe)	12.6	20.4	(38)
Ionamin® (US)	5.5	5.5	
Semprex D® (US)	2.6	6.7	(61)
Pediapred® (US)	3.9	6.0	(35)
Other products (US/Europe)	78.2	83.3	(6)
Total other products	**131.3**	**152.2**	**(14)**
Total product sales	**252.9**	**241.7**	**5**
Cost of sales	(87.8)	(69.2)	27
Gross profit	**165.1**	**172.5**	**(4)**

Gross profit % of total sales	65%	71%

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The above presentation has been prepared in accordance with that used in 2003, whereby major products have been classified as either key promoted brands or other major products.

The table indicates an increase in product sales of 5% or £11.2 million from 2001, which was due to the factors set out below:

The acquisition of Thiemann on October 1, 2001. The German operation contributed £25.1 million of turnover for the year ended December 31, 2002 compared to £6.6 million for the year ended December 31, 2001.

Launch of Dipentum®. Since its launch by the group in late summer, 2002, Dipentum® generated sales of £4.5 million to December 31, 2002.

Sales grown from Tussionex® and Delsym®. Tussionex® grew to £71.3 million from £64.1 million in 2001. This reflected prescription growth of 4% and price increases. Delsym®, the only over the counter extended anti-tussive, responded strongly to the launch of a new bottle size with sales increasing to £14.3 million from £9.9 million.

Our attention deficit/hyperactivity disorder franchise achieved modest growth. Our franchise consists of branded Metadate® CD and the generic methylphenidate range. Together the franchise achieved sales of £30.5 million compared with the £29.0 million achieved during 2001. During 2002, Metadate® CD continued to maintain a share of approximately 9% of the once daily methylphenidate market and achieved sales for the year of £18.0 million (2001: £8.6 million). During 2002 we announced positive results from a head-to-head study against the then and still market leader in the once daily methylphenidate segment. The study was designed to confirm that the pharmacokinetic profile of Metadate® CD translates into improved clinical control during the school day. The positive results from this study were in a peer review journal during 2003.

The sales growth noted above was partially offset by a number of products, which declined or were discontinued during 2002 as noted below:

Discontinued products and disposals. During 2002 we discontinued manufacturing some low margin third party packaging, discontinued or disposed of under-performing products and experienced a sales decline as a result of our disposal during 2001 of our Belgian fine chemical business and French OTC products. The total sales decline attributable to discontinued or disposed of lines was approximately £7.0 million.

Sales decline in Semprex®-D. During 2002, we stopped promoting Semprex®-D, partly in response to changes in the US prescription antihistamine market arising from the introduction of generic competitors by the market leader and its switch to OTC status. Consequently, we determined that Semprex®-D was no longer a key product and have stopped promoting it. Sales fell to £2.6 million from the £6.7 million achieved in 2001.

Sales decline in Zaroxolyn®. Zaroxolyn® sales fell by £1.8 million to £28.5 million during the year. The product maintained prescription levels but sales fell due to a reduction in wholesale inventory levels.

The remaining decrease is due to declines in our less promoted US and European products.

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Gross Profit

The gross profit, under UK GAAP, remained steady for 2002 at 71% compared with 72% in 2001. The margin, whilst basically flat, was impacted by certain key factors, which are set out below:

Celltech R&D

The margin on our royalties increased from 77% to 91%, this was due to two key factors. Firstly during 2001 we booked legal costs in relation to our enforcement of the Pertactin patent to cost of sales. This matter was resolved during 2002 and the year-on-year reduction in the costs of goods sold was £3.0 million, contributing a margin improvement of approximately of 4%. The remainder of the improvement was due to lower cross royalties payable on Remicade®, subsequent to the Boss patent settlement with Genentech. However, the cross royalties will start to increase again on Remicade® from the final quarter of 2003, increasing each quarter until March 2006, the original expiration date of the Boss patent.

Celltech Pharmaceuticals

Increased insurance costs, predominantly included in cost of sales, increased by approximately £5.0 million from the equivalent period in 2001. Premiums in the insurance year to September 2002 increased by 57% to £6.1 million, and would have been considerably higher without our three-year agreement for certain layers of product liability insurance. As a response to the tighter insurance market, and in anticipation of significant further increases in liability premiums in 2003/4, Celltech formed a subsidiary captive insurance company to underwrite certain areas of risk. A charge of £2.9 million has been recorded in 2002 captive insurance company. The margin impact of insurance on the commercial operations is approximately 2%.

The impact of certain one-off benefits in 2001. During 2001 we were able to reduce our reserves for methylphenidate and additionally received a compensation receipt of £2.7 million in respect of a vaccine that a third party was unable to produce on our behalf. The margin impact on 2001 of these one-offs was approximately 6%.

The above two factors were partly offset by increased higher margin product sales such as Tussionex® and a reduction of lower margin activities such as contract manufacturing and non-promoted products.

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Operating Expenses/Income

The table below sets out our operating expenses/income for 2002 compared with 2001:

	December 31 2002	December 31 2001	% change
	£ million		
Corporate and general administrative expenses	*(26.8)*	*(24.9)*	*8*
Exceptional items		*(7.8)*	*n/a*
Goodwill amortization	*(93.7)*	*(92.6)*	*1*
Total corporate and general administrative expenses	(120.5)	(125.3)	(4)
Investment in R&D	(95.7)	(90.7)	6
Selling, marketing and distribution expenses	(71.5)	(78.6)	(9)
Total operating expenses	**(287.7)**	**(294.6)**	**(2)**
Other income	8.1	18.8	(57)

By division (excluding exceptional items and goodwill), which are separately discussed below:

	Celltech Pharmaceuticals		R&D	
	December 31 2002	December 31 2001	December 31 2002	December 31 2001
	£million		£million	
Gross profit	**165.1**	**172.5**	**69.8**	**47.1**
Corporate and general administrative expenses	(15.9)	(13.8)	(10.9)	(11.1)
Investment in R&D	(13.2)	(10.9)	(82.5)	(79.8)
Selling, marketing and distribution expenses	(71.5)	(78.6)		
Other income			8.1	18.8
Operating result	**64.5**	**69.2**	**(15.5)**	**(25.0)**

Corporate and general administrative expenses

The corporate and general administration charge of £26.8 million includes a full year charge from Thiemann of £3.6 million compared with a three-month charge incurred in 2001 of £0.7 million

Exceptional items and goodwill

The restructuring costs during 2001 were predominantly undertaken in relation to the US business. There were no restructuring costs incurred during 2002.

The 2002 goodwill charge of £93.7 million reflects a full year ownership of Medeva, Thiemann and Cistron. The 2001 goodwill charge of £92.6 million reflected a full year ownership of Medeva, a full year s ownership of Cistron and a three-month charge in respect of Thiemann.

Selling, marketing and distribution expenses

Selling, marketing and distribution expenses were £71.5 million in 2002 compared with £78.6 million in 2001.

The reduction in this expenditure is attributable to the reduction, announced in July 2002, of our US primary sales force from 350 to 170 representatives.

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Investment in research and development

Investment in research and development was £95.7 million in 2002 compared with £90.7 million in 2001. This increase reflects the expansion of Celltech s discovery capability and development pipeline. The 2002 figure for research and development is net of £3.7 million credited to expenditure on CDP 870 as a result of funding from Pharmacia (now Pfizer); the 2001 figure is net of £8.4 million of such funding.

Under US GAAP, to the extent any credit is taken for the funding from Pharmacia (now Pfizer), it is credited to other income rather than to research and development costs.

For a more detailed description of our research activities on a project-by-project basis see Item 4 Information on the Company Business Overview Research Collaborations .

Other Income

Other income decreased to £8.1 million in 2002 from £18.8 million in 2001. Other income tends to fluctuate considerably year-to-year as a result of the nature of the collaborations with partners and the timing of milestones.

Celltech received milestone payments of £8.1 million during 2002, including a $10 million (£6.4 million) payment from Pharmacia (now Pfizer) upon initiation of Phase III studies for CDP 870. In 2001 Celltech received £18.8 million, including a £17.5 million initial CDP 870 collaboration payment from Pharmacia (now Pfizer).

For US GAAP the up-front payments received from Pharmacia (now Pfizer) together with milestone receipts were accounted for under the provisions of SAB 101 and had been deferred primarily due to the multiple element nature of our collaboration arrangement with Pharmacia (now Pfizer) and our research and development funding obligation referred to above.

Net Income

The following table sets forth selected income statement data for the periods indicated:

	December 31 2002	December 31 2001	% change
	£ million		
Group operating loss	**(44.7)**	**(56.2)**	**(20)**
Net interest receivable	1.4	3.6	(61)

Taxation	ordinary	(7.6)	(8.1)	(6)
Taxation	goodwill	5.1	5.2	(2)
Loss on ordinary activities		**(45.8)**	**(55.5)**	**(17)**

Net interest receivable

Interest income in 2002 was £1.4 million compared with £3.6 million in 2001. The decrease was primarily attributable to lower interest rates on cash balances during the period, particularly in the US, in addition to a lower average cash balance.

We held £31 million in convertible loan stock issued by PowderJect to us as part of the consideration for the disposal of our vaccines business. Interest accrued on the notes at 7% per annum. However, the income received on this was offset by the interest we paid on our $50 million private placement loan, which had an interest rate of 6.51%. In 2003 we repaid the $50 million private placement loan and PowderJect redeemed the convertible loan stock note on their acquisition by Chiron.

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Taxation

The tax charge for 2002 was £2.5 million compared with a tax charge of £2.9 million in 2001. Within these figures were deferred tax credits on acquired goodwill of £5.1 million (2002: £5.2 million) leaving an underlying tax charge of £7.6 million compared with £8.1 million in 2001.

B. LIQUIDITY AND CAPITAL RESOURCES

Overall

The following table sets forth certain information about our net liquidity at each of the dates indicated:

	December 31 2003	December 31 2002	December 31 2001
		£ million	
Cash and liquid resources	155.0	105.1	90.4
Net funds	154.0	72.2	53.1
Undrawn borrowing facilities	75.0	76.0	91.0

Cash and liquid resources comprise our portfolio of cash, short-term bank deposits and fully negotiable, highly liquid investments with original maturities at the date of purchase of up to 12 months. The cash and liquid resources are managed externally by three liquidity fund managers in accordance with strict investment guidelines.

Net funds comprise our cash and liquid resources less outstanding loan balances and finance lease obligations. As at December 31, 2003, we had no outstanding loan balances but did have finance lease obligations of £1.0 million.

Our undrawn borrowing facilities consist of two available amounts:.

Firstly we have a three-year unsecured syndicated multi-currency credit facility, due to expire in December 2005. The interest on any borrowing we may make varies from 0.75% to 0.90% above the London Interbank Offer Rate, or LIBOR, depending on the amount outstanding under the facility. The financial covenants governing this £65.0 million facility are (1) the ratio of EBITDA to net interest payable is not at the end of each ratio period, less than 6 to 1; (2) the ratio of net debt to EBITDA is not at the end of each ratio period more than 3 to 1; and (3) shareholders funds are not at any time less than £350.0 million. We currently have no reason to believe that we could not meet these covenants should we wish to utilize the facility.

Secondly, RBS provides us with an unsecured overdraft facility of £35.0 million gross, and £10.0 million net.

For the years ended December 31, 2003, 2002 and 2001 there were no adverse effects arising from financial guarantees, violations of debt covenants, adverse charges in performance of credit indicators, charges in access to financing or operationally essential transactions, nor charges in factors related to financing, guarantees or commitments to third parties.

We believe our working capital is sufficient for our current requirements.

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Cash flow activity

The following table sets forth the key components of the movements in cash and liquid resources in each of the periods indicated:

	December 31 2003	December 31 2002	December 31 2001
		£ million	
Cash and liquid resources at the start of the period	**105.1**	**90.4**	**76.6**
Net cash inflow from operating activities	53.9	49.4	38.7
Returns on investment and servicing of finance	4.8	0.2	2.5
Taxation	(2.8)	(3.6)	8.7
Capital expenditure and financial investment	3.4	(26.1)	(22.3)
Acquisitions and disposals of businesses	24.6(1)		(13.5)
Financing	(28.9)	0.9	(1.7)
Exchange on cash and liquid resources	(5.1)	(6.1)	1.4
Cash and liquid resources at the end of the period	**155.0**	**105.1**	**90.4**

		£million
(1)	Acquisition and disposals per statutory cash flow heading	(74.9)
	Liquid resources inherited with the acquisition	99.5
		24.6

A discussion of the key movements is set out below:

Net cash inflow from operating activities

The net cash generated from operating activities of £53.9 million (2002: £49.4 million, 2001: £38.7 million) indicates our ability to operate without reliance on additional borrowing or usage of existing cash and indicates our ability to fund increases in future research and development expenditure.

The group generated operating losses of £63.6 million in the year (2002: £44.7 million, 2001: £56.2 million). However, these losses include non-cash amortization charges of £97.4 million (2002: £94.7 million, 2001: £92.6 million) and depreciation of £13.9 million (2002; £13.3 million, 2001: £12.6 million). The ability to generate cash from our underlying operations (excluding amortization and depreciation) is dependent on the trading performance of the group, discussed in Item 5 Operating and Financial Review and Prospects Operating Results .

The net cash inflow from operating activities is also dependent on our ability to control working capital and any outflows relating to exceptional items. These factors are discussed below:

Working capital movements

The group s working capital excluding cash and liquid resources (stock, debtors and creditors) improved by £18.7 million during the year (2002: £8.7 million outflow, £11.2 million outflow). The significant inflow in the current year was as a result of an increase of £28.9 million in trade creditors and accruals due to:

An increase in the reserves for Zaroxolyn® at the end of the year as the product faced generic competition.

Increased accruals for CDP 870 in the Crohn s indication as clinical activity was stepped up toward the end of the year.

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Increases in the amounts owed to Pfizer on CDP 870 in the rheumatoid arthritis indication. After Pfizer indicated that they no longer wished to participate in the project, all outstanding balances due to Pfizer in relation to the project were deferred.

The favorable cash flow movement in creditors was partly offset by increases in debtors and stocks. In particular, debtors increased due to increased prepayments on insurance (in line with premium increases) and a prepayment made to Lonza as part of our new manufacturing arrangements with them.

In 2002 working capital increased by £8.7 million due primarily to a decrease in trade creditor balances. In 2001 working capital increased by £11.2 million, due primarily to a large increase in trade debtors caused by sales in advance of announced price increases, which became effective from January 2002.

Settlement of fair value provisions

On the acquisition of OGS we inherited significant onerous liabilities, in particular in relation to long-term lease obligations. During 2003 we settled £22.5 million of these liabilities. Further obligations of £11.7 million remain, which will result in additional outflows during 2004.

Outflow relating to exceptional items

The outflow relating to exceptional items in 2003 was £8.9 million (2002: £5.2 million, 2001: £6.9 million). Of the total exceptional charge of £40.5 million before taxation incurred during 2003, £20.0 million will result in a cash outflow for the group, of which £8.1 million took place during 2003. The total outflow of £8.9 million included £0.2 million of prior year items. In total we have a further £11.8 million of cash expenditure on exceptional items to come and the significant proportion of this will take place in 2004.

Returns on investment and servicing of finance

During the year we had an inflow from our returns on investment and servicing of finance (net interest) of £4.8 million (2002: £0.2 million, 2001: £2.5 million).

We earned net interest of £2.7 million during 2003. However, our inflow was considerably in excess of this as we received accrued interest on our PowderJect loan notes. The loan notes during 2003 were redeemed during the year. We had been accruing interest on these notes at 7% per annum but were actually only being paid 4% per annum until maturity. Correspondingly, in 2002 and 2001 the interest being earned was in excess of the cash inflow.

At the end of 2003 we also settled an outstanding senior debt loan of $50 million, which accrued interest at the rate of 6.51% per annum.

The impact on our future interest income of the settlement of the PowderJect loan notes and the repayment by us of the senior debt is broadly neutral.

Taxation

The net taxation paid during 2003 was £2.8 million (2002: £3.6 million, 2001: £8.7 million inflow). During 2003 we received tax credits of £5.1 million, in particular due to a large refund in respect of research and development expenditure credits available to OGS. In 2001 we received refunds of £13.6 million, more than offsetting the actual taxation we paid in that year.

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Capital expenditure and financial investment

The table below sets out the capital expenditure and financial investment undertaken by the group:

	December 31 2003	December 31 2002	December 31 2001
		£ million	
Payments to acquire tangible fixed assets	(15.0)	(11.8)	(16.1)
Payments to acquire intangible fixed assets	(13.2)	(16.1)	(11.8)
Payments to acquire fixed asset investments			(7.0)
Proceeds from disposal of equity investments		1.1	11.5
Proceeds from repayment of PowderJect loan note	31.0		
Proceeds from sale of fixed assets	0.6	0.7	1.1
Capital expenditure and financial investment	3.4	(26.1)	(22.3)

Payments to acquire tangible fixed assets

In total our capital expenditure during 2003 was £16.2 million of which £1.2 million was accrued at the end of the year giving a cash outflow of £15.0 million. The expenditure primarily reflected projects to extend laboratory facilities in Slough, to accommodate growth in the research activities of this site, and to upgrade the manufacturing facilities at our Ashton-under-Lyne contract manufacturing facility.

Payments to acquire intangible fixed assets

The outflows in 2003 and 2002 relate primarily to our acquisition of Dipentum®. As of December 31, 2003 we still have deferred consideration payable on this product of £5.3 million in 2004 and £2.8 million in 2005.

The outflow in 2001 related to our acquisition of SLAM technology from Abgenix for £11.8 million.

Payments to acquire fixed asset investments

The payment in 2001 of £7.0 million relates to the investment we made in NeoGenesis. This investment has been written down to £nil in the current year as noted in our discussion of exceptional items in Item 5 Operating and Financial Review and Prospects Operating Results .

Proceeds from the disposal of equity investments

During 2002 and 2001 we completed the process of disposing of a number of investments we inherited as part of the Medeva acquisition. With the acquisition of OGS in 2003 we have inherited a further equity investment in BioInvent, a company listed on the Danish stock market. The market value of this investment as of December 31, 2003 was £1.1 million.

Proceeds from repayment of PowderJect loan note

During the year we received an early repayment of £31.0 million of convertible loan notes due from PowderJect Pharmaceuticals plc, following its acquisition by Chiron during 2003.

Acquisitions and disposals of businesses

During the year we acquired OGS for £106.1 million. However, at the date of its acquisition OGS held net cash and liquid resources of £126.6 million. Furthermore, we terminated a joint

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venture arrangement held by OGS along with Marconi called Confirmant Limited and received a further amount of £6.4 million, which represented our share of the remaining cash in that business. Thus in aggregate we disclose a significant cash inflow of £24.6 million for 2003 in respect to acquisitions and disposals of businesses. If we were to combine all the various inflows and outflows relating to the acquisition of OGS included within the different statutory cash flow headings (in particular the settlement of fair value provisions of £22.5 million), but excluding costs in relation to continuing activities of the business, the inflow for the year would be at £0.3 million.

The net inflow in respect of 2001 is in respect of our acquisition of Thiemann for £26.2 million net. The outflow was partly offset by receipts, which arose from businesses we were holding for immediate disposal, subsequent to our acquisition of Medeva (£11.2 million net of funding) and from the proceeds of European asset sales (Belgian fine chemical business and French OTC products) of £3.0 million.

Financing

In 2003 we repaid our senior loan debt of $50 million (£28.5 million).

In 2001 we repaid a loan of £5.4 million inherited with Thiemann. This was largely offset by proceeds from the exercise of share options of £5.0 million.

In each of the three years under review we have reduced our finance (capital) lease balances. During 2003 the repayment was £0.7 million (2002: £1.1 million, 2001: £1.7 million).

Exchange on cash and liquid resources

Exchange differences arise primarily on our holding of US dollars and on the significant flows of US dollars to and from the group. In both 2003 and 2002 there was a significant weakening of the US dollar against sterling and consequently negative exchange differences arose on translation. During 2001 the US dollar had strengthened against sterling and consequently an exchange gain was reported.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We spent £106.1 million on research and development projects in the year ended December 31, 2003 as compared with £95.7 million for the year ended December 31, 2002 and £90.7 million for the year ended December 31, 2001. See Item 4 Information on the Company Business Overview Research and Discovery for a discussion of our research and development projects and see Item 5 Operating And Financial Review And Prospects Critical Accounting Policies for an explanation of our research and development accounting.

For a discussion of our patents and licenses, see Item 4 Information on the Company Business Overview Intellectual Property .

D. TREND INFORMATION

We have indicated the key trends affecting the group s results in Item 5 Operating and Financial Review and Prospects Factors Affecting Future Results .

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E. OFF-BALANCE SHEET ARRANGEMENTS

Overall

There are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the company s financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

The group s subsidiaries are listed in Item 4 Information on the Company Organizational Structure . All subsidiaries are 100% owned as at December 31, 2003 and are therefore fully consolidated into the group s results. The group has no shareholdings in quasi-subsidiaries or special purpose entities. In section F we set out a tabular disclosure of contractual obligations the only material of balance sheet item not captured within this table is the deficit in the funding of our defined benefit pension schemes, a discussion of which is set out below:

Pensions

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. We operate a mixture of defined benefit and money purchase pension schemes, with all new employees entering the latter schemes. The funding of Celltech s defined benefit schemes on a UK GAAP SSAP24 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 group following advice from the scheme actuary. Under the UK GAAP FRS17 valuation basis, which is considered less appropriate to us in the light of the low average age of the scheme members, these schemes show a deficit as at December 31, 2002 of £25.5 million, amounting to 39% of scheme assets.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

	Payments due by period				
	£ million				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Capital (Finance) Lease Obligations*	1.0	0.6	0.4		
Operating Lease Obligations [(i)]	82.3	6.8	11.3	9.6	54.6
Purchase obligations manufacturing[(ii)]	56.7	8.6	16.6	16.7	14.8
Research and development commitments[(iii)]	0.8	0.8			
Purchase obligations capital expenditure[(iv)]	7.8	7.8			
Other Long-Term Liabilities*[(v)]	5.3		2.8		2.5
Total	**153.9**	**24.6**	**31.1**	**26.3**	**71.9**

* Already reflected in the group s financial statements.

(i) These obligations primarily relate to the long-term leases on the group s premises in the UK and Europe.

(ii) The group has entered into significant manufacturing capacity arrangements as discussed below:

Sandoz (formerly Biochemie GmbH)

We have contracted Sandoz, a subsidiary of Novartis, as a long-term source for the manufacture of microbially produced antibody products (including CDP 870). We have reserved manufacturing capacity beginning on January 1, 2004 and ending December 31, 2010.

We have potential take-or-pay obligations, which are subject to mitigation under this agreement of approximately £41.0 million.

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Lonza

We have contracted Lonza as a long-term manufacturing source and have reserved manufacturing capacity until December 31, 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 £14.0 million.

BioReliance

We have a contract with BioReliance enabling us to reserve manufacturing capacity. The current minimum commitment is £2.2 million based on forecast requirements, which have been submitted to BioReliance.

(iii) For details of our research and development collaborations, see Item 4.B. Information on the Company Business Overview Research Collaborations and Note 10 of Notes to the Financial Statements.
(iv) The committed capital expenditure primarily relates to the development of laboratories at Slough and the site upgrade-taking place at Ashton-under-Lyne.
(v) The amount payable shown in the 1-3 year category relates to deferred consideration payable on our Dipentum® acquisition in 2005. The amount shown in the more than 5 years category relates to a provision against an un-funded pension scheme in the US.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Executive Officers and Directors

The following table sets forth the persons who are currently and were as of December 31, 2003 the executive and non-executive members of our board of directors.

Name	*Position*
Non-Executive Chairman:	
Dr. Peter J. Fellner	Chairman
Executive Directors:	
Dr. Göran A. Ando	Group Chief Executive
Peter V. Allen	Deputy Chief Executive and Finance Director
Dr. Melanie G. Lee	Research and Development Director
Ingelise Saunders	Global Commercial Director
Non-executive Directors:	
Sir Tom Blundell	
Mr. Peter H.E. Cadbury	
Professor Chris R.W. Edwards	

Mick G. Newmarch
Dr. Peter R. Read
Mr. Philip G. Rogerson

Dr. Peter J. Fellner, age 60, is Celltech s Chairman, a member of the Nomination Committee, and has been a member of our board of directors since September 1990. He was appointed Chairman of the Board in April 2003, after serving as Chief Executive since 1990. He joined Celltech in 1990 from Roche UK, where he was Chief Executive. Prior to joining Celltech, Dr. Fellner was Director of the Roche UK Research Centre and before that the Director of Research at Searle UK Research Laboratories. Dr. Fellner is also Non-Executive Chairman of Vernalis plc, Astex Technologies Ltd and Ionix Pharmaceuticals Ltd. In addition he is a director of ISIS Innovation Ltd and a member of the Medical Research Council.

Dr. Göran Ando, age 55, was appointed Group Chief Executive on April 16, 2003. Dr. Ando joined Celltech in April 2003 from Pharmacia Corporation where he was Executive Vice President and President of R&D until its acquisition by Pfizer, completed in April 2003. At Pharmacia he had executive responsibilities 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.

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Peter V. Allen, age 48, is the Chief Financial Officer and Deputy Chief Executive Officer of Celltech and has been a member of our board of directors since February 1992. A chartered accountant, Mr. Allen joined Celltech in 1992 as Finance Director from Associated British Ports Holdings plc, where he served as the Group Financial Controller. Prior to that Mr. Allen was the group Controller at L Oreal (UK). He was appointed Deputy Chief Executive in April 2003.

Dr. Melanie G. Lee, age 45, is Celltech s Research and Development Director and has been a member of our board of directors since September 1998. She joined Celltech in September 1998 as Director of Research from Glaxo Wellcome (now GSK). She worked at Glaxo for ten years and was most recently Head of the Receptor Systems Unit at the Stevenage Medicines Research Centre. Dr. Lee is also Chairperson for 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.

Ingelise Saunders, age 54, is Global Commercial Director with responsibility for the pharmaceutical business. She joined Celltech in September 2001. In 1992 Ms. 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. Ms. Saunders was appointed an Executive Director to our Board on 22 October 2003.

Sir Tom Blundell, FRS, KB, age 61, is Chairman of Celltech s Science and Technology Committee and a member of the Nomination Committee. He joined the Board of Celltech in 1997. He is a William Dunn Professor, 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, a director of Babraham Institute, Cambridge and Chairman of the Royal Commission on Environmental Pollution.

Peter H.E. Cadbury, age 60, was appointed on April 10, 2003 as a Non-Executive Director to the Board. He serves on our Remuneration Committee and is Chairman of the Nomination Committee. 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 (now the investment bank of Deutsche Bank) and Chairman of Close Brothers Corporate Finance.

Prof. Chris R.W. Edwards, FRCP, FRCPEd, MD, FRSE, FMedSci, Hon DSc, age 62, has been a member of our board of directors since January 1997, and is a member of the Audit and Nomination Committee. He is also the Vice Chancellor of the University of Newcastle and was formerly the 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.

Mick G. Newmarch, age 65, is Chairman of our Audit Committee and has been a member of Celltech s board of directors since June 1996. He was formerly Chief Executive of Prudential Corporation plc and is a former director of the Association of British Insurers.

Dr. Peter R. Read, CBE, FRCP, FFPM, age 65, joined Celltech s board of directors from Medeva in 2000. He is a former Chairman of the Hoechst Group of Companies in the UK and a past president of the Association of the British Pharmaceutical Industry. Current appointments include non-executive director of Vernalis Group plc, SSL International Group plc and board member of the South East of England Development Agency. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

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Philip G Rogerson, age 59, joined the Board on March 12, 2003 as a Non-Executive Director, and was subsequently appointed as Senior Independent Director. Mr. Rogerson serves on the Audit and Remuneration Committees. He is Chairman of Aggreko plc and Viridian Group plc and Chairman or Non-Executive Director of a number of other companies.

The following persons are also members of our senior management.

John A.D. Slater, age 51, is Company Secretary and Director of Legal Services. He joined Celltech in 1989. He is a solicitor and held positions in a number of high technology companies in the UK before joining Celltech.

Peter Nicholls, age 54, is group Director of human resources. He joined Celltech in 1987. Previously, Mr. Nicholls has held a number of senior human resources positions in various UK companies, including Marley plc and AGB plc. Mr. Nicholls is a member of our Executive Committee.

B. COMPENSATION

Compensation of Directors

The main components of remuneration for our executive directors and members of our administrative, supervisory or management bodies are as follows:

Base Salary. Base salaries are reviewed annually taking into account recommendations on individual performance and salary levels in comparable companies. In formulating its decision the Committee takes into account appropriate benchmarks.

In reviewing salary levels for 2003 the Committee used the 2002 base salaries as the main reference point for its review and referred to a comprehensive Deloitte & Touche review of Executive Director Remuneration in FTSE 350 companies dated October 2002. 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 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 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.

Annual Performance Incentive. We operate a discretionary bonus scheme whereby individual performance objectives for executive directors and senior managers are established at the beginning of the financial year. Performance related payments may be paid annually, dependent upon achievement measured against objectives, and are limited to a maximum of 40% of base salary (50% in the case of the Chief Executive). In addition, we operate a Deferred Bonus Plan. Under the plan, awards may be made to selected directors and senior executives in Celltech shares worth no more than 100% of the participant s annual bonus. Shares subject to awards are held in the Celltech Group plc Employee Share Trust and are eligible for release over a period of two years from the date of grant of an award.

Longer Term Performance Incentives. Directors and employees may also be rewarded for improvement in the company s performance by the grant of share options on a discretionary basis. The allocations of discretionary share options take into account the future potential contribution of individuals. The aggregate

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exercise price of options over which discretionary options were granted to an individual, pursuant to the Celltech Chiroscience Executive Share Option Scheme 1999, in each year would not normally exceed 1.5 times the earnings of that individual. Options were issued subject to a performance requirement determined by our Remuneration Committee. Discretionary options granted under the Celltech Chiroscience Executive Share Option Scheme 1999 only become exercisable if our share price has out performed the FTSE Mid-250 Index by a margin over at least a three-year period. In May 2001, we approved the Celltech Group plc 2001 Discretionary Share Option Scheme, to replace the Celltech Chiroscience Executive Share Option Scheme 1999. Any options granted since May 2001 have been granted under the Celltech Group plc 2001 Discretionary Share Option Scheme (2001 Scheme). Options granted under the 2001 Scheme are subject to a performance requirement determined by the Remuneration Committee. Upon grant, such options will only become exercisable if our share price has exceeded the median growth in share price of a comparable group over a period of three to five years from the date of grant of the options. The comparable group selected is a total of approximately 80 companies, comprising larger members of the FTSE Mid 250 index and smaller members of the FTSE 100 index. This comparable group is different from that used for to determine base salary and is reviewed at the time each grant of options is made.

Pensions and Other Benefits. Executive directors who were directors of Celltech prior to the merger with Chiroscience participate in our Executive Pension Plan, which is a contributory money purchase scheme funded with the objective to provide a pension of up to two-thirds of basic salary on retirement at 65. The scheme also provides for lump sums on death in service. However, as from September 1, 2001, Dr. Ando, Mr. Allen and Dr. Lee became members of the Executive Director tier of the Celltech Pension and Life Assurance Scheme. This Scheme 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 (which is 60 at the Executive Director tier of the scheme). 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 fulfill the Company s obligation to provide a pension to Dr Fellner at age 60. Accordingly, a full year s contribution was made in 2003 to Dr Fellner to his normal retirement age of 60 at December 31, 2003. The amount of the Company s contribution is disclosed on the remuneration table on page 79.

For a detailed description of our various share option plans see note __ of Notes to the Financial Statements of Celltech. Executive and non-executive directors options to subscribe for Celltech ordinary shares are set forth below. See Item 6 Directors, Senior Management and Employees Share Ownership Options to Subscribe for Celltech Ordinary Shares . Executive and non-executive directors ownership of Celltech ordinary shares is also set forth below. See Item 6 Directors, Senior Management and Employees Share Ownership Directors Interests in Shares of the Company .

Except where otherwise indicated, the following table sets forth the compensation paid to or accrued by or on behalf of all of our executive and non-executive directors for the 12 months ended December 31, 2003.

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	Salary/Fees 12 months 2003	Bonus 12 months 2003	Benefits 12 months 2003	Pension contributions 12 months 2003	Other 12 months 2003	Total 12 months 2003
			(£ thousands)			
Executive Directors						
Dr. P J Fellner[1][3]	133.2	115.5	6.5	520.0		775.2
Dr. G A Ando[2][4]	373.7	336.4	66.7	91.2	336.1	1204.1
P V Allen[3][4]	358.5	243.8	13.0	78.0		693.3
Dr. M G Lee[3][4]	310.0	209.0	20.7	63.4		603.1
I Saunders[3][5]	52.3	39.4	2.2	21.1		115
Non-Executive Directors						
Dr P J Fellner[1]	101.3					101.3
J B H Jackson[6]	35.0					35.0
Sir Tom Blundell[7]	44.3					44.3
Prof. C R W Edwards	32.8					32.8
M G Newmarch[8]	40.5					40.5
Dr P Read[9]	40.5					40.5
Dr M E Jaffe	32.3					32.3
P Cadbury[10]	28.9					28.9
P Rogerson[11]	35.8					35.8
H R Collum[12]	25.9					25.9
J W Baker[13]	17.1					17.1
Total	1,662.1	944.1	109.1	773.7	336.1	3,825.1

(1) From January 1, 2003 until April 16, 2003 Dr. Fellner held the post of Chief Executive Officer 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 Dr. Fellner s pension plan. This payment is included within the pension contributions. On April 16, 2003 Dr. Fellner retired as Chief Executive Officer and was appointed Non-Executive Chairman and from this date until December 31, 2003 his fees are shown under the Non-Executive Directors heading.

(2) Dr. Ando was appointed Group Chief Executive Officer on April 16, 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.

(3) The bonus listed above relates to the year ended December 31, 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% 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 October 22, 2003, when Ms. Saunders was appointed to the Board, to December 31, 2003.

(6) The payments relate to the period from January 1, 2003 to April 16, 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 and £3,750 payment as Chairman of the Remuneration Committee for the period 1 July 2003 to 31 December 31, 2003.

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(10) The payments relate to the period from April 10, 2003, when Mr. Cadbury was appointed to the Board, to December 31, 2003, includes £3,623 payment as Chairman of Nomination Committee.
(11) The payments relate to the period from March 12, 2003, when Mr. Rogerson was appointed to the Board, to December 31, 2003.
(12) The payments relate to the period from January 1, 2003 to July 10, 2003 when Mr. Collum retired from the Board.
(13) The payments relate to the period from January 1, 2003 to May 22, 2003 when Mr. Baker retired from the Board.

The potential benefits arising from the Celltech Pension and Life Assurance Scheme were as follows:

	Dr M G Lee	P V Allen	G Ando
Age	45	48	55
Service	5 years	11 years	259 days
Accrued pension as at January 1, 2003	£ 13,776	£ 35,283	
Inflation	£ 234	£ 600	
Increase in annual pension accruing in 2003	£ 3,322	£ 3,356	£ 2,342
Accrued annual pension as at December 31, 2003	£ 17,332	£ 39,239	£ 2,342
Transfer value of accrued pension at the start of the year based on market conditions at December 31, 2002	£ 114,220	£ 321,378	
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	£ 29,720	£ 46,059	£ 27,289
Transfer value of accrued pension at the end of the year based on market conditions as at December 31, 2003	£ 149,853	£ 373,350	£ 31,477

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

Name of Director	Age	Service	Increase in annual pension accruing in 2003	Accrued annual pension at December 31, 2003	Increase in transfer value of pension arising in 2003
P V Allen	48	11 years	£ 3,356	£ 39,239	£ 26,765
Dr M G Lee	45	5 years	£ 3,322	£ 17,332	£ 23,076
Dr. G A Ando	55	259 days	£ 2,342	£ 2,342	£ 27,289

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Details of the emoluments of each Director, including compensation for loss of office and pension entitlements are set out below.

	Salary/fees year ended December 31, 2002	Bonus year ended December 31, 2002	Benefits in kind year ended December 31, 2002	Compensation for loss of office December 31, 2002	Pension year ended December 31, 2002	Total year ended December 31, 2002
			(in £ thousands)			
Executive Directors						
Dr P J Fellner (highest paid Director)[1]	450.0	389.3	21.1		418.7	1,279.1
P V Allen[1][2]	300.0	210.0	16.6		60.9	587.5
Dr M G Lee[1][2]	285.0	194.0	19.0		56.5	554.5
S C Cartmell[1] [3]	66.3		2.7	371.3	12.7	453.0
Non Executive Directors						
J B H Jackson	120.0					120.0
Sir Tom Blundell[4]	37.0					37.0
Prof. C R W Edwards	25.0					25.0
M G Newmarch[5]	30.0					30.0
H R Collum	40.0					40.0
Dr M E Jaffe	25.0					25.0
Dr P Read[6]	30.0					30.0
J W Baker	40.0					40.0
Total	1,448.3	793.3	59.4	371.3	548.8	3,221.1

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

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

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

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

The increase in the transfer value of pensions arising in 2002, less member contributions paid in 2002, was £21,309 for Dr M G Lee and £24,660 for P V Allen.

	Salary/fees year ended December 31, 2001	Bonus year ended December 31, 2001	Benefits in kind year ended December 31, 2001	Compensation for loss of office December 31, 2001	Pension year ended December 31, 2001	Total year ended December 31, 2001
			(in £ thousands)			
Executive Directors						
Dr P J Fellner (highest paid Director)[1]	420.0	370.0	20.9		301.4	1,112.3
P V Allen[1] [2]	280.0	206.1	15.6		46.1	547.8
Dr M G Lee[1] [2]	230.0	152.7	14.8		31.6	429.1
S C Cartmell[1] [2]	265.0	123.0	12.8		57.0	457.8
Dr U M Ney[1] [2]	216.0	86.4	12.4			314.8
J Ferguson[3]	109.0		8.8	344.1	20.8	482.7
Non Executive Directors						
J B H Jackson	120.0					120.0
H R Collum	40.0					40.0
J W Baker	40.0					40.0
Sir Tom Blundell[4]	37.0					37.0
Prof. C R W Edwards	25.0					25.0
M G Newmarch[5]	30.0					30.0
Dr M E Jaffe	25.0					25.0
Dr P Read[6]	30.0					30.0
Total	1,867.0	938.2	85.3	344.1	456.9	3,691.5

(1) The bonus listed above relates to the 12 months ended December 31, 2001. This bonus includes a deferred bonus which will be settled by shares issued from the Celltech Group plc Employee Share Trust over a period of two years. The deferred bonus amounts to 50% of the total.

(2) Certain Directors are also members of the Celltech Pension and Life Assurance Scheme, the potential benefits arising from which are separately disclosed. The pension payments included above relate to additional payments made to the Directors to compensate for the earnings cap. Dr Ney was not subject to the cap. Mr. Cartmell s pension payments are in respect of the period from September 11, 2000.

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(3) The payments relate to the period January 1, 2001 to July 31, 2001 when Mr. Ferguson resigned. Mr. Ferguson also received a bonus of £53,100 in February 2001 in relation to the year ended December 31, 2000. Mr. Ferguson was also a member of the Medeva Senior Executive Pension Plan (MSEPP), the potential benefits arising from which are separately disclosed.
(4) Includes £12,000 annual payments as Chairman of the Science Council.
(5) Includes £5,000 annual payments as Chairman of the Audit Committee.
(6) Includes £5,000 annual payment as Chairman of Medeva Pension Trustees.

Name of Director	Age	Service	Increase in annual pension accruing in 2001	Accrued annual pension at December 31, 2001	Increase in transfer value of pension arising in 2001
P V Allen	46	10 years	£ 3,349	£ 31,452	£ 26,118
S C Cartmell	42	1 year	£ 3,185	£ 3,982	£ 20,106
Dr M G Lee	43	3 years	£ 3,223	£ 10,342	£ 22,478
Dr U M Ney	50	13 years	£ 17,207	£ 79,146	£ 193,093
J Ferguson	46	8 years	£ 2,695	£ 24,115	£ 22,984

The following table sets forth information regarding stock options to subscribe for Celltech ordinary shares that were granted to or exercised by our executive and non-executive directors in 2003:

	Number At December 31, 2002 or date of appointment if later	Number Granted/ lapsed during year	Number Exercised during year	Number At December 31, 2003 or date of resignation if earlier	Exercise Price	Market price on date exercised	Exercise Period	Category
					£	£		
Dr. Goran A. Ando		10,452		10,452	2.87		4/23/2006 4/21/2013	A2
		728,223		728,223	2.87		4/23/2006 4/21/2013	D1
		106,896		106,896	2.87		4/23/2006 4/21/2013	N1
Dr. Peter J. Fellner	120,000			120,000	5.80		8/19/1999 6/30/2004	B1
	48,261			48,261	9.73		4/27/2003 6/30/2004	B2
	24,039			24,039	9.73		4/27/2003 6/30/2004	B3
	49,776			49,776	11.15		4/05/2004 6/30/2004	B2
	52,466			52,466	11.15		4/05/2004 6/30/2004	B3

	2,690		2,690	11.15	4/05/2004 6/30/2004	A
	1,021	(1,021)		9.48	6/01/2004 11/30/2004	C

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	Number At December 31, 2002 or date of appointment if later	Number Granted/ lapsed during year	Number Exercised during year	Number At December 31, 2003 or date of resignation if earlier	Exercise Price	Market price on date exercised	Exercise Period	Category
					£	£		
	154,878			154,878	6.15		Due to lapse on 6/30/2004	D1
	20,920			20,920	6.15		Due to lapse on 6/30/2004	NI
	7,569			7,569			1/8/2002 1/8/2011	DE
	7,569			7,569			1/8/2003 1/8/2011	DE
	1,022			1,022			1/8/2002 1/8/2011	NI
	1,022			1,022			1/8/2003 1/8/2011	NI
	15,731			15,731			3/14/2003 3/14/2012	DE
	15,731			15,731			3/14/2004 3/14/2012	DE
	2,124			2,124			3/14/2003 3/14/2012	NI
	2,124			2,124			3/14/2004 3/14/2012	NI
		33,354		33,354			3/25/2004 3/25/2013	DE
		33,355		33,355			3/25/2004 3/25/2013	DE
		4,897		4,897			3/25/2004 3/25/2013	NI
		4,897		4,897			3/25/2004 3/25/2013	NI
Peter V. Allen	3,083			3,083	9.73		4/27/2003 4/25/2010	A
	31,903			31,903	9.73		4/27/2003 4/25/2010	B2
	12,814			12,814	9.73		4/27/2003 4/25/2010	B3
	33,426			33,426	11.15		4/05/2004 4/03/2011	B2

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Number At December 31, 2002 or date of appointment if later	Number Granted/ lapsed during year	Number Exercised during year	Number At December 31, 2003 or date of resignation if earlier	Exercise Price	Market price on date exercised	Exercise Period	Category
				£	£		
16,713			16,713	11.15		4/05/2004 4/03/2011	B3
1,855	(1,855)			5.12		6/01/2005 11/30/2005	C
98,302			98,302	6.15		4/10/2005 4/8/2012	D1
13,279			13,279	6.15		4/10/2005 4/8/2012	NI
	248,257		248,257	2.87		4/23/2006 4/21/2013	D1
	36,442		36,442	2.87		4/23/2006 4/21/2013	NI
	3,987		3,987	2.87		6/01/2006 11/30/2006	C
4,252		(4,252)			3.60	1/8/2002 1/8/2011	DE
4,253		(4,252)			3.60	1/8/2003 1/8/2011	DE
575		(575)			3.60	1/8/2002 1/8/2011	NI
575		(575)			3.60	1/8/2003 1/8/2011	NI
8,761			8,761			3/14/2003 3/14/2012	DE
8,762			8,762			3/14/2004 3/14/2012	DE
1,183			1,183			3/14/2003 3/14/2012	NI
1,183			1,183			3/14/2004 3/14/2012	NI
	17,994		17,994			3/25/2004 3/25/2013	DE
	17,995		17,995			3/25/2005 3/25/2013	DE
	2,642		2,642				NI

			3/25/2005 3/25/2013	
2,642	2,642		3/25/2004 3/25/2013	NI

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	Number At December 31, 2002 or date of appointment if later	Number Granted/ lapsed during year	Number Exercised during year	Number At December 31, 2003 or date of resignation if earlier	Exercise Price	Market price on date exercised	Exercise Period	Category
					£	£		
Dr. Melanie G. Lee	76,080			76,080	2.625		8/19/1999 9/23/2008	B1
	25,351			25,351	9.73		4/27/2003 4/25/2010	B2
	12,649			12,649	9.73		4/27/2003 4/25/2010	B3
	26,331			26,331	11.15		4/5/2004 4/3/2011	B2
	13,166			13,166	11.15		4/5/2004 4/3/2011	B3
	1,697			1,697	4.33		3/1/2007 8/30/2007	C
	2,106	(2,106)			5.12		6/1/2009 11/30/2009	C
		4,158		4,158	2.37		6/1/2008 11/30/2008	C
	88,136			88,136	6.15		4/10/2005 4/8/2012	D1
	11,905			11,905	6.15		4/10/2005 4/8/2012	NI
		10,452		10,452	2.87		4/23/2006 4/21/2013	A2
		202,265		202,265	2.87		4/23/2006 4/21/2013	D1
		29,691		29,691	2.87		4/23/2006 4/21/2013	NI
	2,917		(2,917)			3.542	1/8/2002 1/8/2011	DE
	2,918		(2,918)			3.542	1/8/2003 1/8/2011	DE
	394		(394)			3.542	1/8/2002 1/8/2011	Ni
	394		(394)			3.542	1/8/2003 1/8/2011	Ni
	6,493			6,493			3/14/2003 3/14/2012	DE
	6,493			6,493			3/14/2004 3/14/2012	DE

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	Number At December 31, 2002 or date of appointment if later	Number Granted/ lapsed during year	Number Exercised during year	Number At December 31, 2003 or date of resignation if earlier	Exercise Price	Market price on date exercised	Exercise Period	Category
					£	£		
	877			877			3/14/2003 3/14/2012	NI
	877			877			3/14/2004 3/14/2012	NI
		16,623		16,623			3/25/2004 3/25/2013	DE
		16,624		16,624			3/25/2004 3/25/2013	DE
		2,441		2,441			3/25/2004 3/25/2013	NI
		2,441		2,441			3/25/2004 3/25/2013	NI
Ingelise Saunders	3,370			3,370	8.90		10/20/2004 10/19/2011	A2
	30,337			30,337	8.90		10/20/2004 10/19/2011	D1
	4,095			4,095	8.90		10/20/2004 10/19/2011	NI
	53,073			53,073	6.15		4/10/2005 4/18/2012	D1
	7,169			7,169	6.15			NI
		165,418		165,418	2.87		4/23/2006 4/21/2013	D1
		24,282		24,282	2.87		4/23/2006 4/21/2013	NI
	1,496			1,496			3/14/2003 3/14/2012	DE
	1,497			1,497			3/14/2004 3/14/2012	DE
	202			202			3/14/2003 3/14/2012	NI
	202			202			3/14/2004 3/14/2012	NI
		11,396		11,396			3/25/2004 3/25/2013	DE
		11,397		11,397			3/25/2005 3/25/2013	DE

1,673	1,673	3/25/2004 3/25/2013	NI