Because people depend on us

Business review

Directors and governance

Financials

We are a growing international specialist healthcare company focused on specialty pharmaceuticals and interventional medicine.

Our mission is to bring to market medical products that meet the needs of specialist physicians and their patients and in doing so to build a sustainably profitable business that delivers superior returns to shareholders.

We are expanding. In the past year we began selling our own specialty pharmaceutical products in the US and we acquired Biocompatibles International plc, adding an interventional medicine focus.

Products and availability

Product	Available in regions*
CroFab® (crotalidae polyvalent immune fab (ovine))	1
DigiFab® (digoxin immune fab (ovine))	1,2,4
Bead Block™	1,2,3,4,5,6,7,8
LC Bead™	1
DC Bead®	2,3,4,5,6,7,8

*Products may only be available in some territories in the regions highlighted.

Over the past 30 months, we have brought together three strong companies – BTG, Protherics and Biocompatibles – to create a growing, international specialist healthcare company, focused on specialty pharmaceuticals and interventional medicine. We will support growth in both areas by investing in product acquisition, development and direct, customer-facing activities.

Specialty pharmaceutical products

On 1 October 2010, our new acute care sales force commenced selling CroFab® (crotalidae polyvalent immune fab (ovine)) and DigiFab® (digoxin immune fab (ovine)) in the US. CroFab® is approved in the US for the management of patients with North American crotalid snake envenomation. DigiFab® is approved in the US for the treatment of patients with life-threatening or potentially life-threatening digoxin toxicity or overdose; it is also approved in Canada and Switzerland, and we are progressing a regulatory application in the UK while exploring additional opportunities in other markets.

Acquisition of Biocompatibles

Jan 2011

Acquisition of Protherics

Dec 2008

Interventional medicine products

Through the acquisition of Biocompatibles in January 2011, we now have a range of implantable products to address the needs of patients with cancer of the liver and prostate. These include embolisation beads and drug-eluting beads that are guided into arteries supplying tumours, most frequently liver tumours. Embolisation beads block the blood supply and drug-eluting beads slowly release cytotoxic drugs. Biocompatibles also brought delivery systems containing radioactive Seeds and ancillary equipment used in brachytherapy implants to treat early-stage prostate cancer. In addition to strengthening our sales in Western markets, Biocompatibles' products also provide a footprint in increasingly important Asian markets.

Building our product portfolio

We intend to expand our product range through organic development and acquisition activities. From our own pipeline, if we are successful in gaining regulatory approvals in the US, potential additions to our marketed products are Voraxaze® (glucarpidase), which is under development for the rapid and sustained reduction of toxic methotrexate levels due to impaired renal function, and Varisolve® (PEM), an experimental treatment for varicose veins. Glucarpidase would be sold by our existing acute care sales force and we would establish a new specialist sales force within our interventional medicine area to market PEM in the US reimbursed sector. We are also seeking to acquire products from outside BTG that fit our specialty pharmaceuticals and interventional medicine franchises, or which merit a dedicated specialist sales force.

We are developing products to be used by specialist physicians and that we will market ourselves. We are also developing products addressing major indications that we intend to partner.

We developed and we manufacture our marketed products CroFab® and DigiFab®, which are based on our polyclonal antibody platform. We have also developed and manufacture embolising beads and drug-eluting beads for treating tumours, in particular liver cancer, and brachytherapy products that are used in the treatment of early-stage prostate cancer.

Our current development programmes support expansion of our marketed products and provide partnering opportunities.

Recent progress in clinical development programmes includes:

Voraxaze® (glucarpidase): We expect to submit the final components of the rolling Biologics License Application (BLA) in the US in early H2 2011. This is to seek approval as a treatment for the rapid and sustained reduction of toxic methotrexate levels due to impaired renal function.

Varisolve® (PEM): Three Phase III trials were initiated in the US during September to November 2010, two (VANISH-1 and VANISH-2) are intended to support a US regulatory application for approval as a single agent to treat the symptoms and appearance of varicose veins in people with incompetence of the great saphenous vein (GSV), and the third (VV017) to support an application for use alongside heat ablation of the GSV to treat vein segments not treated by the ablation procedure. Recruitment in all three is on track: VV017 has completed recruitment of all 105 patients, VANISH-2 has recruited 220 patients (96% of target) and VANISH-1 has recruited 62 patients (25% of target). As treatments complete in VV017 a number of VV017 sites will immediately begin recruiting for VANISH-1, increasing the overall number of sites in this study. All studies are expected to be completed by the end of 2011, with data in H1 2012, a US regulatory submission in H2 2012 and potential approval in H2 2013.

DC Bead®, HCC (SPACE trial): In collaboration with Bayer this Phase II study of patients with hepatocellular carcinoma (HCC) is exploring the use of sorafenib in combination with transarterial chemoembolisation (TACE) using the DC Bead® compared with DC Bead® alone. Recruitment is complete and the study results are expected in H1 2012.

DC Bead®, HCC (bridge to transplant): Two investigator-led Phase II studies are currently recruiting patients, a multicentre study in Germany and single centre study in New Zealand.

DC Bead®, HCC (downstage to resection): A single centre investigator-led Phase II study is currently recruiting patients in the US.

DC Bead®, mCRC (PARAGON): Four investigator-led Phase II studies are recruiting patients covering all stages of metastatic colorectal cancer: neoadjuvant, first line, second line and refractory. The neoadjuvant study is a single arm, multicentre study in patients with resectable liver metastases from colorectal cancer; the first line study is a randomised multicentre study with concomitant systemic oxaliplatin, fluorouracil and leucovorin chemotherapy with anti-angiogenic therapy; the second line study is a randomised multicentre study of DC Beads with irinotecan and systemic cetuximab vs. systemic irinotecan and cetuximab in patients with refractory KRAS wild type tumours; and the refractory study is a single arm study in patients with liver dominant disease.

R&D expenditure

10/11	**£32.1m**
09/10	£27.0m
08/09	£21.6m
07/08	£12.9m

Our investment in research and development has increased during the past four years in line with the expansion of the business, following the acquisition of Protherics and Biocompatibles, and the decision to complete development of Varisolve® (PEM).

Key products in our pipeline

	Product, Indication	Phase I	Phase II	Phase III	NDA/BLA
Specialty pharmaceuticals	**Voraxaze® (glucarpidase)** Delayed MTX elimination				
Interventional medicine	**Varisolve® (PEM)** Varicose veins				
	DC Bead® SPACE trial (with Bayer) Hepatocellular cancer				
	Drug-Eluting Bead (PARAGON) Metastatic colorectal cancer (mCRC)				
	Drug-Eluting Bead (PRECISION) Primary liver cancer (HCC)				
Licensing candidates	**BGC20-0134 (Pleneva™)** Multiple sclerosis				
	CellBead™ (neuro) NeuroHaemorrhage				
	CellBead™ (cardio) Cardiovascular diseases				

The results of the DC Bead® studies mentioned on the previous page will inform our future development strategy for DC Bead®.

BGC20-0134 (Pleneva™): Recruitment of 166 patients was completed in January 2011 into this Phase IIa study of BGC20-0134, an oral compound under development as a potential treatment for relapsing-remitting multiple sclerosis. The primary outcome at the end of a six-month double blind treatment period is the number of new lesions in the brain detected by MRI scanning during the treatment period. Data relating to the primary outcome are anticipated in H2 2011; additional data will be generated in a six-month open label study extension.

We partner products in development that we do not plan to market ourselves once we have demonstrated proof of concept.

BTG's origins as a technology licensing company have resulted in us receiving significant milestone and royalty revenues from partners. Revenues from licensed programmes generally cease when the patents we have licensed expire, but new revenue streams commence as partners are successful in developing and commercialising other products. We have an exciting pipeline of partnered programmes with the potential to generate significant future value.

Partnering is a key part of BTG's strategy. In bringing together the portfolios of BTG, Protherics and Biocompatibles, we have continued several development programmes that do not fit our specialty pharmaceuticals or interventional medicine focus. This is because we believe they have the potential to deliver significant value in return for a defined R&D investment if we can generate positive early data and find appropriate partners. This activity is managed by our licensing and biotechnology team.

Among our current active development programmes, those destined for partnering if the data from the current studies are promising are: BGC20-0134 (Pleneva™), under development as a treatment for multiple sclerosis; CellBead™ (neuro), targeting stroke; and CellBead™ (cardio), targeting cardiovascular diseases. Each of these programmes will require large pivotal Phase III trials, and if they are approved, large sales forces and marketing budgets. This does not fit our strategy of developing products for niche indications, where smaller patient numbers are required for the trials programme and small sales forces address specialist audiences if the products are successfully approved.

Progress in key partnered programmes:
ZYTIGA™ (abiraterone acetate): In September 2010 a Phase III trial of abiraterone acetate plus prednisone in patients with advanced metastatic prostate cancer was unblinded after an interim analysis demonstrated a statistically significant improvement in overall survival and an acceptable safety profile. Regulatory applications were submitted in the US and EU in December 2010, and US approval was received in April 2011. Abiraterone acetate is licensed to Cougar Biotechnology, which was acquired by Johnson & Johnson in 2009.

Alemtuzumab: Five-year data from a completed Phase II study in multiple sclerosis patients was published in April 2011, showing that nearly two-thirds of alemtuzumab-treated patients remained free of clinically active disease for up to four years after receiving their last course of treatment of the investigational drug. Initial results from two pivotal Phase III trials are expected in the third and fourth quarters of 2011, leading to anticipated regulatory submissions in early 2012.

AZD9773 (CytoFab™): A global Phase IIb study to compare the efficacy and safety of AZD9773 with placebo in adult patients with severe sepsis and/or septic shock receiving best supportive care was initiated in October 2010 and continues to recruit patients. Results are anticipated in H1 2012. AZD9773 is licensed to AstraZeneca.

Otelixizumab: This monoclonal antibody failed to meet the primary endpoint in a Phase III study in type 1 diabetes. A Phase II study in rheumatoid arthritis is ongoing. Otelixizumab is licensed to Tolerx, Inc./ GlaxoSmithKline.

CM-3: A development and option agreement relating to CM-3, a GLP-1 analogue being developed by CellMed for use in type 2 diabetes and other indications, was terminated by AstraZeneca in May 2011.

Recurring royalties

10/11	**£60.1m**
09/10	£54.1m
08/09	£55.3m
07/08	£42.4m

Key contributors to recurring royalties in 10/11:

BeneFIX®	**£28.7m**
Two-Part Hip Cup	**£12.4m**
MRC humanisation IP	**£6.3m**
Campath® (alemtuzumab)	**£5.2m**

Partnered programmes

	Product, Indication	Phase I	Phase II	Phase III	NDA/BLA
Cougar Biotechnology/J&J	**CB7630 (abiraterone acetate)** Prostate cancer (EU) Advanced breast cancer				
Genzyme Corporation/Sanofi	**Alemtuzumab** Multiple sclerosis				
AstraZeneca	**AZD9773 (CytoFab™)** Severe sepsis				
Tolerx/GSK	**Otelixizumab** Rheumatoid arthritis				
Abiogen Pharma	**ABIO-0801** Anxiety				
Renovo Group plc	**Juvidex™** Accelerated healing and scar improvement				
Advancell S.A.	**Acadra™ (acadesine)** B-cell Chronic Lymphocytic Leukaemia				
ImmusanT, Inc.	**Nexvax2** Coeliac disease				
Onyx Pharmaceuticals	**ONX 0801** Solid tumours				

We are delivering against the key corporate objectives supporting our overall goal of becoming a sustainably profitable specialist healthcare company.

We now have a US commercial infrastructure, and on 1 October 2010 our new acute care sales force started selling CroFab® and DigiFab®. In January 2011, we completed the acquisition of Biocompatibles and its range of interventional oncology products. We expect to increase revenue and gross margins by optimising our US commercial arrangements and taking over direct sales of the Bead products in the US when the current distribution arrangement expires at the end of 2011.

In our pipeline, we decided to complete regulatory development of Varisolve® (PEM) in the US – an investment of around $55m over three years – and initiated three Phase III trials between September and November 2010. If approved, we plan to market PEM ourselves in the US for the treatment of symptomatic varicose veins, where reimbursement is available and where we estimate the peak sales opportunity for PEM to be $250m to $500m per annum. Other pipeline investments are to support the approval of new and existing products. These investments also support the generation of data to enable licensing of products that address major indications and are more appropriate for partnering.

Key performance indicators and priorities for the year

We use financial and non-financial indicators to monitor company performance. The key financial indicators are revenue, gross margin, operating profit and cash. Similar key performance indicators (KPIs) are used in the annual bonus scheme (see the remuneration report on pages 57 to 68). Threshold, target and stretch levels are set, based on the Group's annual budget. The threshold must be reached for any bonus to be payable; the actual performance determines the bonus element relating to company performance. Results for the financial KPIs are shown in the table below.

The non-financial indicators approved by the Board are cascaded into team and individual goals. Progress against these goals determines the personal element of an individual's bonus. Performance against priorities for 2010/11 and priorities for 2011/12 are shown opposite.

Financial KPIs

	2010/11	2009/10
Revenue	**£111.4m**	£98.5m
Gross margin	**69.4%**	66.7%
Operating profit[1]	**£1.7m**	£10.8m
Cash and cash equivalents[2]	**£73.9m**	£82.6m

1 The operating profit or loss before acquisition adjustments and reorganisation costs.
2 2010/11 number includes cash held on fixed term deposits.

In May 2009 we set out our growth strategy, which had three components:

1. Establish a US commercial infrastructure and sales force to sell both CroFab® and DigiFab®;
2. Acquire additional products to leverage this commercial infrastructure; and
3. Invest in our pipeline to build future value.

These led to our priorities for 2010/11, progress against which is shown below.

Priorities in 2010/11	Performance
1. Financial management[1]	
A. Achieve revenue, gross margin, profit and cash targets	Achieved
B. Achieve new licence revenue targets	Not Achieved
2. Commercial	
A. Initiate sales of CroFab® and DigiFab®	Achieved
B. Successful audit of compliance systems	Achieved
C. Progress DPC CroFab® for 2012 introduction	Not achieved (project replaced)
3. Growth	
A. Expand marketed products and pipeline in line with strategy	Achieved
4. Development	
A. Progress Varisolve® (PEM) Phase III programme	Achieved
B. Submit final part of Voraxaze® (glucarpidase) BLA	Not achieved (submission delayed to include additional data)
5. Operations	
A. Manage supply chain to meet commercial production targets	Partially achieved (ongoing)
B. Achieve targeted increases in production yields	Partially achieved (ongoing)

Priorities in 2011/12
1. Financial management
A. Achieve revenue, gross margin, profit and cash targets
B. Deliver acquisition synergies
2. Specialty pharmaceuticals
A. Deliver production, revenue and profit targets for CroFab® and DigiFab®
B. Submit Voraxaze® (glucarpidase) BLA
3. Interventional medicine
A. Deliver production, revenue and profit targets for Beads and BrachySciences
B. Ensure readiness to sell LC Bead™ directly in the US from 2012
C. Progress Beads expansion in Asian Markets
D. Complete all patient treatments in Varisolve® (PEM) Phase III trials
4. Licensing and biotechnology
A. Deliver targets from out-licensing/sale of pipeline assets
B. Develop CellMed R&D/partnering plans
C. Meet R&D programme timelines
5. Corporate
A. Audit quality systems
B. Audit global health and safety and environmental policies and procedures
C. Grow company through product acquisitions

1 A detailed review of the financial performance is included in the financial review on pages 21 to 24.

Business review

10
Report from the directors on the key strategic, financial and operational developments during the year.

Our results demonstrate the achievement of key strategic goals that we set for the year. We are confident that the investments we are making will be reflected in our future financial performance.

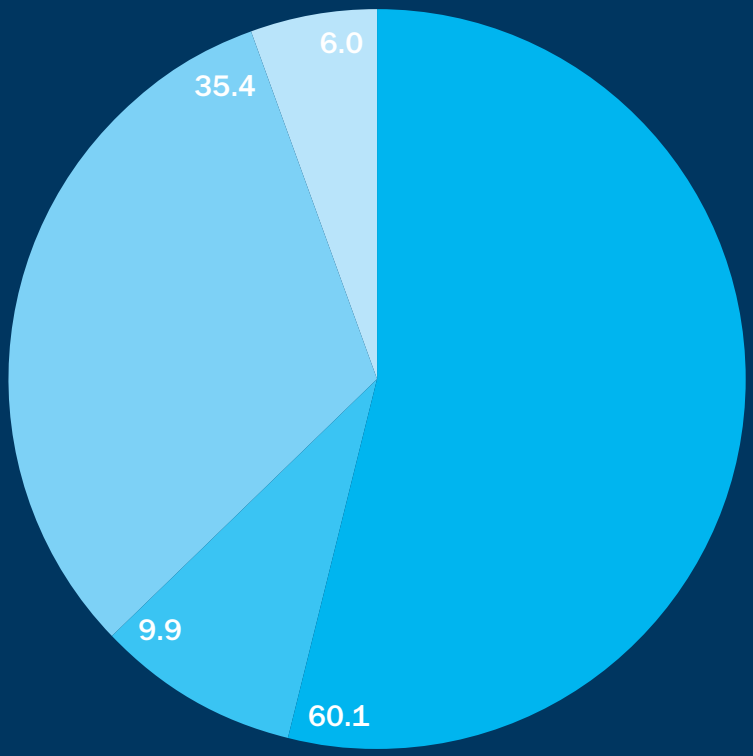
Our operating priorities for the year were to commence selling CroFab® and DigiFab® in the US, to initiate the Varisolve® (PEM) Phase III programme and to expand our range of marketed products and pipeline. We achieved all three. At the same time, we achieved our key financial goals relating to revenue, gross margin, operating profit and cash management during a year of substantial investment.

Total revenue increased by 13.1% to £111.4m. Royalty revenues comprised recurring royalties of £60.1m, 11% higher than in the previous year, and milestones/one-off income of £9.9m, £0.2m lower than in the previous year. Product revenues were 3% higher than in the previous year at £35.4m. Our recurring revenues (comprising recurring royalties and product revenues) grew by 8% in total to £95.5m. The contribution from Biocompatibles during the two months from 27 January to 31 March 2011 was £6.0m. Our gross margin was 69.4%, an increase of 2.7%.

Highlights

Total revenue
£111.4m

- Recurring royalties **£60.1m**
- Marketed product revenues **£35.4m**
- Milestones/one-off income **£9.9m**
- Biocompatibles revenues **£6.0m**



Total revenue

£111.4m

09/10	**£98.5m**
08/09	£84.8m
07/08	£75.0m
06/07	£45.7m

R&D expenditure

£32.1m

09/10	**£27.0m**
08/09	£21.6m
07/08	£12.9m
06/07	£9.7m

Cash and cash equivalents

£73.9m*

09/10	**£82.6m**
08/09	£78.2m
07/08	£57.0m
06/07	£43.0m

*Includes held to maturity financial assets

Operating profit before acquisition adjustments and reorganisation costs

£1.7m

Loss before tax including £15.5m of acquisition adjustments and reorganisation costs

£10.8m

Profit after tax following a tax credit of £20.0m

£9.2m

Gross margin

69.4%

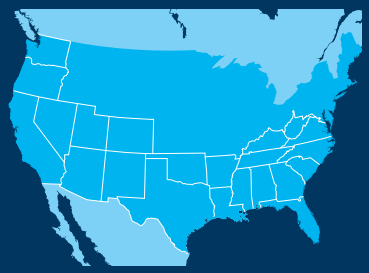
09/10	**66.7%**
08/09	56.3%
07/08	57.2%
06/07	58.6%

Operating highlights

- Initiation of three Varisolve® (PEM) Phase III trials in the US
- Acquisition of Biocompatibles International plc
- Establishment of US acute care sales force
- Accelerated transition of marketing rights for CroFab® and DigiFab®
- Approval of ZYTIGA™ (abiraterone acetate)
- Initiation of Phase IIb study of AZD9773 (CytoFab™)

Acute care sales coverage

- 19 sales representatives and two medical science liaisons recruited in to our acute care field force
- Direct representation in 22 states; sales coverage in all states



I am pleased to report a year of strong progress, in which we started selling our own products in the US and expanded our product range through the acquisition of Biocompatibles.

Gross profit in 10/11 (09/10: £65.7m)

£77.3m

Total revenue

10/11	**£111.4m**
09/10	£98.5m
08/09	£84.8m
07/08	£75.0m

The financial results for the year reflect the achievement of key strategic objectives as we have continued to deliver on our growth strategy.

Results summary

Revenue of £111.4m (09/10: £98.5m) generated a gross profit of £77.3m (09/10: £65.7m). The loss before tax of £10.8m (09/10: profit of £9.1m) includes acquisition adjustments and reorganisation costs of £15.5m (09/10: £8.7m) and reflects the costs of the accelerated transition of marketing rights to CroFab® and DigiFab® from Nycomed US Inc. back to BTG and the Varisolve® (PEM) investment. A tax credit following the reorganisation of our US businesses resulted in a profit after tax of £9.2m (09/10: £11.3m). Cash and cash equivalents, together with cash on fixed term deposits, were £73.9m at 31 March 2011 (cash and cash equivalents of £82.6m at 1 April 2010). The financial review on pages 21 to 24 describes the results in detail.

Progress against strategy

We achieved the key operating goals we set for the year. Our first direct sales force, the acute care team, started selling CroFab® and DigiFab® in the US on 1 October 2010. This enables us to retain the full value of these products. We initiated three Phase III trials of our experimental treatment for varicose veins, PEM, between September and November 2010. Patient recruitment is complete in one and on track in the other two. We believe PEM has the potential to generate $250m–$500m per annum in sales in the US reimbursed sector. We expanded our range of marketed products and our development pipeline in line with our strategy through the acquisition of Biocompatibles in January 2011, adding a new growth component to BTG.

The Biocompatibles business is proving to be an excellent fit for BTG. Its products are used by specialists who can be served by a small sales force. Sales of the embolisation and drug-eluting bead products grew at approximately twice the market rate between 2007 and 2009 and provide significant opportunities for further growth. We intend to market the embolisation beads directly in the US from 2012, leveraging our existing commercial infrastructure. The beads also give us access to important Asian markets, with reimbursement awaited in Korea and Taiwan and registration progressing in Japan and China. We have also gained access to early-stage programmes in the CellMed subsidiary that provide partnering opportunities. Integration of Biocompatibles is proceeding well and we have taken all the actions necessary to achieve the targeted £3m annualised synergies by the end of the 2011/12 financial year.

Value creation continued in our partnered pipeline, with ZYTIGA™ (abiraterone acetate) being approved in the US as a treatment for men with advanced prostate cancer and AstraZeneca initiating a global Phase IIb study of AZD9773 (CytoFab™) in severe sepsis patients.

Board changes

Ian Much and Melanie Lee, CBE, joined the Board as non-executive directors in August and November 2010, respectively. William Jenkins retired from the Board in February 2011. On behalf of my fellow directors, I wish to thank William for his many contributions to the Company's development since he was appointed as a non-executive director in 2002.

Outlook

Having established direct sales operations in the US and expanded our product offering,

We are at an exciting stage in the development of our business. Having established our own US sales force and supporting operations, we will retain the full value of CroFab® and DigiFab®, and of any other products we develop or acquire that can be sold through the same team.

The acquisition of Biocompatibles has brought a range of marketed products in the growing field of interventional medicine, providing another specialist focus area for our business. In addition to increasing our sales revenues in the US, the Bead products, which address the needs of patients with liver cancer, provide a footprint in important Asian markets.

With a clear strategy for expanding our business and a strong financial profile, we are well-positioned to deliver growth for our shareholders.

Dr John Brown Chairman

we can look forward to increasing revenue, gross profit and cash generation to fuel further growth of our business. To drive growth we will continue to invest in pipeline programmes including PEM, we will enhance our US commercial operations in preparation for commencing direct sales of the LC Bead™ and we will seek to acquire new products to expand our product portfolio and pipeline. I am confident that the investments we are making will be reflected in the future performance and value of the Group.

By bringing together three strong companies, we have created a financially strong, diversified specialist healthcare business with excellent growth potential.

Estimated incidents of snakebite envenomation each year in the US

8,000

Percentage of patients prescribed digoxin who may experience toxicity

1%–4%

In line with our strategy to migrate from a pure licensing business into one that also sells its own products, thereby benefiting from enhanced revenues and margins, in December 2008 we acquired Protherics and two acute care products, CroFab® and DigiFab®. These are approved in the US and were being sold there by Nycomed. We saw the opportunity to build our own US commercial operations in a de-risked way around these established, profitable products by taking over direct sales. In October 2010, following an agreement with Nycomed to accelerate the return of marketing rights to BTG, our new acute care sales force commenced selling the products.

Having established US commercial operations, our strategy has been to acquire further products that meet the needs of specialist physicians and their patients. This led to the acquisition in January 2011 of Biocompatibles and its range of interventional oncology products that are sold in the US, the EU and other territories including growing Asian markets. Biocompatibles has brought a new focus area to BTG – interventional medicine, a branch of medicine that is growing rapidly and is practised by specialist physicians including interventional radiologists.

The strong financial profile of the Group and planned commercial capabilities enabled us to confirm we would fund the remaining development of Varisolve® (PEM) and market it ourselves in the US reimbursed sector if approved. This product is a key value driver for BTG.

Integration of Biocompatibles

Since completing the acquisition of Biocompatibles in January I have met many of our new employees and have spent time with the operational management teams at our new sites in the UK, the US and Germany. I have been impressed by the commercial focus and professionalism of everyone I have met. Biocompatibles has operated to a very similar set of values and standards to BTG, which has made integration of the business that much easier.

Our approach to the integration has been to recognise that the enlarged company now has three distinct areas of focus: specialty pharmaceuticals, interventional medicine and licensing and biotechnology. Each area already generates revenues from marketed products or royalties, has ongoing development programmes which, if successful, would lead to new revenue streams, and has opportunities for further growth through acquisition, development and geographic expansion activities.

Specialty pharmaceuticals

Our acute care sales force launched on 1 October 2010 with ten representatives and grew to 19 representatives in February 2011 in preparation for the main season for CroFab® in the US. We are pleased with progress to date and encouraged by initial customer responses to our engagement with them and to new initiatives. For example, we provided an educational grant to opinion leaders in the toxicology community to enable them to develop the first unified treatment algorithm for managing crotaline snake bites in the US.

With DigiFab®, we are optimising geographical sales coverage in the US and seeking to improve awareness amongst physicians of the signs of digoxin toxicity which, due to its relative rarity, may not be immediately recognisable. We have received

Our new acute care sales team has made a strong start selling CroFab® and DigiFab® direct in the US. Biocompatibles has now bought us another focus area in interventional medicine. We are now confidently building another sales team as we prepare to start selling the LC Bead™ directly in the US from 2012.

Louise Makin Chief Executive Officer

regulatory approvals in Canada and Switzerland, are progressing a regulatory application in the UK and intend to seek additional approvals elsewhere.

We have signed an agreement with Glenveigh Pharmaceuticals, LLC whereby rights to develop DigiFab® for pre-eclampsia revert back to Glenveigh in return for undisclosed milestone and royalty payments to BTG. Glenveigh will be responsible for development and commercialisation and BTG will supply clinical trial materials and, subject to further agreement, commercial scale supplies.

Estimated global market potential for oncology bead implants

$400m–$800m

Estimated peak sales potential for Varisolve® (PEM) in the US reimbursed sector

$250m–$500m

Our strategy is to build our specialty pharmaceuticals revenues through both organic development activities and through product acquisitions. From our own pipeline, we expect to submit the final part of the rolling BLA for Voraxaze® (glucarpidase) to the US FDA in mid 2011, leading to a potential US approval during 2012. If approved, the existing acute care sales force would sell glucarpidase, which is under development to treat toxicity associated with high-dose methotrexate in patients with renal impairment, supplemented by a few medical sales liaisons (MSLs). We are also reviewing a number of external opportunities, which include products that would be used in the hospital emergency room and products that would be prescribed by specialist physicians outside of the hospital setting.

Interventional medicine

Biocompatibles' embolisation beads and drug-eluting beads and BrachySciences' brachytherapy products are medical devices that are used to address the needs of patients with cancer of the liver and prostate respectively. The products are sold in the US, the EU and in other territories, and they are in registration studies or pending reimbursement in a number of important Asian markets (see product availability map on page 2). Primary liver cancer is estimated to be seven times more common in certain Asian countries than in Western countries owing to widespread infection with hepatitis B and C; we believe Asia will become an increasingly important market for these products.

We currently sell Bead Block™ directly in the US and plan to sell LC Bead™ directly following expiry of the current distribution agreement with AngioDynamics, Inc. on 31 December 2011. To this end, we are recruiting 21 additional MSLs and account managers, who will join the existing small team and will be supported by the same commercial infrastructure that supports our acute care team.

Through BrachySciences we also sell a range of radioactive seeds and delivery systems in the US that are used to treat early-stage prostate cancer. As we sell more products directly in the US, we see opportunities for increased efficiency from sharing resources and infrastructure, which will enable us to drive margin and profit improvements.

We estimate that in 2009 our Bead products had around one-third of a global market that reached around $95m, and we believe that our global Bead sales grew at around twice the rate of the overall market from 2007 to 2009. We see multiple opportunities to drive further growth, and we estimate that the total global market could reach $400m–$800m. The drivers of growth include:

- Product innovation – we are developing innovations such as M1 Beads that would allow access to different sizes of tumour, and pre-loaded drug-eluting beads that would eliminate the need for compounding in the hospital pharmacy;
- Geographical expansion – we are progressing registrations in China and Japan and are awaiting reimbursement approval in Taiwan and Korea; and
- Segmental expansion – we are supporting a number of clinical studies designed to explore the safety and efficacy of the Beads for treating different types of liver tumours; the results of these studies will inform the clinical and regulatory strategy for further studies designed to expand the uses for which the Beads are indicated.

Many interventional radiologists are treating varicose veins and it is becoming increasingly clear that this physician group could be important to the future adoption of PEM. As we interact with these physicians in connection with the Bead products, we are gaining invaluable experience that we believe will be of benefit for the future marketing of PEM if it is approved in the US. The PEM trials are progressing well, with recruitment on track in all three. We are on track to submit a US regulatory

application in H2 2012, leading to potential approval in H2 2013. We continue to believe that the market opportunity in the US reimbursed sector is $250m–$500m per annum, and we intend to retain maximum value by marketing the product ourselves if approved.

Licensing and biotechnology

We generated £60.1m (09/10: £54.1m) in recurring royalties from our licensing activities. Although future revenues on BeneFIX®, the largest contributor in 2010/11, will cease following sale of inventory existing when the final licensed patents expired in February and March 2011, we anticipate new contributors. These include ZYTIGA™ (abiraterone acetate), which was approved in the US in April 2011 as a treatment for men with advanced prostate cancer who have previously been treated with docataxel chemotherapy.

Development and commercialisation activities continue to be important to BTG. In our current development pipeline are a number of programmes that we intend to partner once they have completed their current studies if the data are supportive, including BGC20-0134 (Pleneva™), which is currently in a Phase IIa study for relapsing-remitting multiple sclerosis.

With Biocompatibles we acquired CellMed, a research and development company in Germany that has a number of early stage programmes based on its CellBeads technology. These aim to deliver therapeutic proteins generated by mesenchymal stromal cells, and they seek to overcome certain difficulties by being encapsulated in a biopolymer coated bead. The target indications include stroke, which is not a strategic fit for BTG. We are currently exploring options to develop the CellBeads programmes to the point where we can partner them to realise both immediate and future value.

Building for the future

By bringing together three strong companies over the past 30 months we have created a company with the capabilities, resources and opportunities to become a substantial, sustainably profitable specialist healthcare business.

We have made good progress in a transformational year. We have the portfolio, capabilities and resources to deliver sustainable profitability in the medium term.

Rolf Soderstrom Chief Financial Officer

Business review

The following sections should be read in conjunction with the financial statements and related notes on pages 74 to 134.

Overview and business model

We are a specialist healthcare company that is focused on bringing products to market that meet the needs of specialist physicians and their patients. Following the acquisitions of Protherics in December 2008 and of Biocompatibles in January 2011, our focus areas are specialty pharmaceuticals and interventional medicine.

We concentrate on specialist products that address serious medical needs because the development pathways and costs are manageable for a company of our scale and resources; there is usually limited competition from larger pharmaceutical and biotechnology companies as markets are niche; the products are usually reimbursed by governments or insurance companies; and the costs of selling and marketing are relatively low.

Our core activities are:

Sales and marketing: We market and sell CroFab® and DigiFab® in the US through our acute care field force, which was established on 1 October 2010. We also sell the Bead Block™ in the US, and plan to sell LC Bead™ from 2012 following the expiry of the current distribution arrangements. If approved, we plan to market Varisolve® (PEM) in the US reimbursed sector. Our products are available in many other territories, where we usually work with distribution partners. A map showing the availability of our products worldwide is presented on page 2 of this report.

Manufacturing: We manufacture the polyclonal antibodies CroFab® and DigiFab®, and the licensed product AZD9773 (CytoFab™), currently in Phase IIb development by AstraZeneca. We also manufacture our implantable oncology Bead products and radioactive Seed delivery systems used in brachytherapy.

Research and development: We conduct non-clinical and clinical studies to explore among other parameters the mechanisms of action, physiological activity, safety and efficacy of our pharmaceuticals and medical devices. We are currently developing PEM as a potential treatment for varicose veins and Voraxaze® (glucarpidase) as a potential treatment for high-dose methotrexate toxicity, both of which we intend to market ourselves in the US if approved. We are also conducting a number of clinical studies to explore further uses of our implantable oncology Bead products. In addition, we are conducting proof of concept studies on a number of products that are intended for partnering. Our current pipeline and recent progress are described on pages 4 and 5 of this report.

Regulatory development: We work with industry experts and regulators to design clinical programmes that support the regulatory approval of our products. We provide the regulators with all data generated when seeking approval of our products.

Business development: We acquire products and programmes from pharmaceutical, biotechnology and medical device companies worldwide. We also license programmes to other companies that we do not intend to market ourselves when we have demonstrated proof of concept in early safety and efficacy studies. Our key partnered programmes and recent progress are described on pages 6 and 7.

Revenues

Our revenues derive principally from sales of our own products, both direct and through distributors, and from milestone and royalty payments from companies to which we have licensed our programmes and intellectual property. The key contributors to product sales are CroFab®, DigiFab®, and, following the acquisition of Biocompatibles, LC Bead™ and DC Bead®. We started selling CroFab® and DigiFab® directly on 1 October 2010 and now retain 100% of sales revenues rather than 50% prior to 1 October 2010 when the products were distributed by Nycomed. We intend to sell the LC Bead™ directly in the US from 2012, when the current distribution agreement ends.

The main royalty revenues come from BeneFIX®, the Two-Part Hip Cup, the MRC humanisation IP and Campath® (alemtuzumab). The patents on BeneFIX® expired in February and March 2011, which will result in revenues ceasing following the sale of inventory existing at patent expiry. We expect during 2011 to start receiving royalties on ZYTIGA™ (abiraterone acetate) following its approval in April 2011 as a treatment for early-stage prostate cancer.

Markets

The US is our most important market. It accounts for 100% of CroFab® revenues, around 85% of DigiFab® revenues, approximately 50% of the implantable oncology bead revenues and the majority of our brachytherapy products revenues. Many of the licensed products on which we earn royalties are sold worldwide although our licensees are often US-based companies. Around 85% of our total revenues are US $-denominated.

We expect certain Asian markets to become increasingly important. Our Bead products are progressing through registration studies in China and Japan and are awaiting reimbursement approval in Korea and Taiwan.

Our strategy is to sell directly in the US. We currently sell CroFab®, DigiFab®, Bead Block™ and our brachytherapy products in the US; we plan to sell the LC Bead™ directly in the US from 2012, and glucarpidase and PEM if approved. In other territories our strategy is to operate through partners. Arrangements vary but typically we supply the products and receive around 50% of sales revenues and the distribution/marketing partner retains 50% of sales revenues.

Key performance indicators

Our key performance indicators and priorities for the year are described on pages 8 and 9 of this report.

Financial review

The financial results reflect the achievement of our strategic priorities for the year. These were the accelerated transition of marketing rights for CroFab® and DigiFab® from Nycomed back to BTG, the initiation of three US Phase III trials to support regulatory approval of PEM and the expansion of our marketed products and pipeline, which was effected through the acquisition of Biocompatibles.

Revenue

Reported revenue increased by 13.1% to £111.4m (09/10: £98.5m). Total royalty income of £70.0m (09/10: £64.2m) included recurring royalties of £60.1m (09/10: £54.1m) and milestones/one-off income of £9.9m (09/10: £10.1m). Key contributors to recurring royalties were BeneFIX® at £28.7m (09/10: £26.6m), the Two-Part Hip Cup at £12.4m (09/10: £10.8m), the MRC humanisation IP at £6.3m (09/10: £5.1m) and Campath® (alemtuzumab) at £5.2m (09/10: £4.5m).

Marketed product revenues were slightly higher than in the prior year at £35.4m (09/10: £34.3m). CroFab® revenues were £25.0m (09/10: £24.2m), DigiFab® revenues were £6.7m (09/10: £5.4m)

Total royalty income in 10/11 (09/10: £64.2m)

£70.0m

Revenue from marketed products in 10/11 (09/10: £34.3m)

£35.4m

and glucarpidase generated £3.7m (09/10: £3.4m) in cost recovery in the US and named patient sales elsewhere.

The main contributors to milestones/one-off income of £9.9m were a settlement with Samsung over the MLC technology, the release of deferred income on AZD9773 (CytoFab™) and a milestone on submission of the US regulatory application for ZYTIGA™ (abiraterone acetate).

Revenues from Biocompatibles for the two months following its acquisition were £6.0m, of which £5.3m were recurring revenues from product sales.

Around 85% of revenues are denominated in US dollars. There was a positive impact on reported revenues of £2.1m owing to movements in the US $.

Our revenue increased by 13% in 10/11 (09/10: £98.5m)

£111.4m

Recurring revenue from recurring royalties and marketed products increased by 8% in 10/11 (09/10: £64.2m)

£95.5m

Earnings per share in 10/11 (09/10: 4.4p)

3.4p

Gross profit

Gross profit increased to £77.3m (09/10: £65.7m) and the gross margin was 69.4% (09/10: 66.7%). The components of gross profit are royalties, including recurring royalties and milestones/one-off income, marketed products and Biocompatibles revenues.

Revenue sharing on recurring royalties was £16.9m (09/10: £16.1m), giving a gross margin of 71.9% (09/10: 70.2%). The increase in margin reflected a higher proportion of income from licence agreements that had a lower revenue share. The revenue share on milestones/one-off income was £5.4m (09/10: £1.5m), giving a gross margin of 45.5% (09/10: 85%) and reflecting higher sharing obligations on the MLC settlement.

The cost of sales relating to marketed products was £8.8m (09/10: £15.2m), delivering a gross margin of 75.1% (09/10: 55.7%). The change in margin reflects a reduced cost of sales being recorded as there were fewer product shipments to Nycomed in the run-up to the transition of rights to CroFab® and DigiFab®, a positive impact from exchange rate variances and the benefits of the transition to direct sales on 1 October 2010. The gross margin on acute care product sales is anticipated to reduce during the year as cost of goods (COGs) return to normalised levels and to stabilise at around 70%.

The gross profit on Biocompatibles revenues was £3.0m (09/10: nil), a 50% gross margin. The £3m cost of sales included a charge of £1.7m relating to a reversal of the fair value uplift on inventory acquired at the time of the acquisition, the remaining £2.1m of which is expected to be fully released in H1 2011/12. The gross margin excluding the £1.7m charge was 78.3%.

Operating expenses

Operating expenses increased to £55.3m (09/10: £38.4m). These expenses include the amortisation of the payment of £9.6m to Nycomed to accelerate the transition of CroFab® and DigiFab® marketing rights to BTG, which resulted in an increased gross profit on marketed products and ensured a smooth transition of the marketing rights.

Included within operating costs is a charge of £10.0m (09/10: £9.1m) relating to amortisation of acquired intangibles, of which £1.8m related to the Biocompatibles acquisition in January 2011 and the remainder to the Protherics acquisition in December 2008.

SG&A expenses were £33.7m (09/10: £25.3m), the majority of the increase relating to the establishment of our acute care sales force and supporting infrastructure, with underlying G&A costs in line with the previous year. Biocompatibles' operating costs were £2.6m (09/10: nil). Transaction and reorganisation costs associated with the Biocompatibles acquisition were £3.8m (09/10: nil).

Increased research and development investment of £32.1m (09/10: £27.0m) resulted from the decision to fund the PEM Phase III programme, with three trials initiated during the year, and progress made with glucarpidase, which is moving towards a BLA filing.

Approximately 85% of Group revenues are denominated in US dollars and we have a policy to hedge 80%–90% of surplus US $ cash flows for the forthcoming 12 months. Settlement of forward contracts and other US $-denominated transactions resulted in losses of £2.0m (09/10: losses of £4.0m). Unrealised foreign exchange gains and losses are recognised at year end on the mark-to-market of forward contracts.

At 31 March 2011, mark-to-market adjustments resulted in a gain of £2.7m (09/10: gain of £6.5m), which is reflected in the net financial income.

Operating loss
Before acquisition adjustments and reorganisation costs we made an operating profit of £1.7m (09/10: £10.8m). Including acquisition adjustments and reorganisation costs of £15.5m (09/10: £8.7m), our operating loss was £13.8m (09/10: operating profit of £2.1m).

Financial income
The financial income was £3.1m (09/10: £7.1m) and included interest on cash held of £0.4m (09/10: £0.6m) and a fair value gain of £2.7m (09/10: £6.5m) on marking to market our forward contracts to sell US dollars.

Profit after tax
Profit after tax was £9.2m (09/10: £11.3m). During the year we completed a corporate restructuring of our US businesses. The restructuring has provided us with increased certainty over the future utilisation of certain of our US tax losses. This is reflected in a credit to the income statement of £18.6m as we have recognised a deferred tax asset in respect of these losses. In line with accounting standards, this deferred tax asset has been offset against the associated US deferred tax liability on the Group's balance sheet. Other deferred tax movements in the year reflect the movement in tax losses and timing differences. A current tax charge of £0.2m has been made in the US in addition to withholding tax on licence income.

Earnings per share
Earnings per share were 3.4p (09/10: 4.4p). The reduction reflects lower levels of overall profit and an increase in the number of shares in issue following the acquisition of Biocompatibles. Adjusting for acquisition adjustments, restructuring costs and the one-off deferred tax credit recognised in the year on US tax losses, the Group's underlying EPS reduced to 1.0p (09/10: 6.9p), reflecting the increased investment in PEM and the acute care sales force and lower mark-to-market adjustments on foreign exchange forward contracts in the year.

Non-current assets
Non-current assets increased from £197.9m to £358.9m, the majority of the increase being the addition of goodwill and intangible assets acquired with Biocompatibles. The net book value of the Group's property, plant and equipment increased by £14.2m to £24.8m following the purchase of land in Australia and the Biocompatibles acquisition.

Current assets, current and non-current liabilities
Inventory increased by £10.4m to £20.0m as a result of us holding finished goods of CroFab® and DigiFab® in the US that would previously have been shipped to Nycomed and higher work in progress held at the year end following a planned temporary shutdown at our fill and freeze-dry supplier. In addition, the balance includes a fair value uplift of £3.8m relating to the acquisition of which £1.7m has been reversed during the year as product has been sold. Trade and other receivables increased from £20.4m to £32.7m as a result of the acquisition and the switch to direct sales of CroFab® and DigiFab®.

With Biocompatibles we acquired £10.2m of cash on fixed term deposit, and there was a net inflow of cash and cash equivalents of £10.8m.

Current liabilities increased from £43.4m to £52.3m. Trade and other payables increased from £40.8m to £49.8m and accounted for the majority of the increase.

Non-current liabilities decreased from £52.4m to £43.9m. The net deferred tax liability reduced from £33.4m to £30.7m. The key movements in the year were the recognition of a deferred tax liability of £21.0m on the acquisition of Biocompatibles offset by the recognition of a deferred tax asset of £18.6m in relation to US losses. Other movements in the liability represent the net movement on losses and foreign exchange differences on US $-denominated balances.

Cash
Net cash and cash equivalents decreased from £82.6m to £63.7m. An additional £10.2m cash is held in fixed-term deposits due within one year.

Cash flows
The Group's cash reduced by £18.9m in a year of significant investment and operating

progress. Total investments were £21.3m (09/10: £2.7m) in tangible and intangible assets, the principal components of which are the reacquired rights from Nycomed (£9.7m) and the purchase of land in Australia that is integral to our supply chain for £8.3m. The acquisition of Biocompatibles resulted in a net cash inflow of £10.8m after accounting for payments to Biocompatibles shareholders and directly associated transaction costs. The transition to direct sales of our acute care products has been the most significant contributor to a net cash outflow from working capital movements over the year. Inventory levels are £5.4m higher as previously explained, receivables are £6.7m higher due to significant sales in the month of March and payables are £5.0m lower due mainly to the unwind of deferred income previously received on shipments of our acute care products to Nycomed. Overall, the net cash outflow from operating activities, including the working capital effects, was £12.0m (09/10: £5.8m inflow).

Outlook

We have made excellent progress over the past year with our key strategic objectives. We set up our sales force in the US, agreed the accelerated transition back to BTG of marketing rights to CroFab® and DigiFab®, invested in PEM and purchased the land in Australia to secure our supply chain. We were able to make these investments from a fundamentally strong financial position.

Looking ahead, we will receive the full benefits of selling CroFab® and DigiFab® this year, with significant growth in sales revenues. We also look forward to a new, potentially significant, royalty stream from ZYTIGA™ (abiraterone acetate), a treatment for advanced prostate cancer that was approved in April 2011 in the US, which will partially offset the loss of royalty revenues from BeneFIX® following patent expiry.

On 13 May 2011 we announced that AstraZeneca had terminated the development and option agreement relating to CM-3, under development by CellMed for type 2 diabetes and other indications. As a result, we will incur a non-cash accounting charge of approximately £8m in the current financial year.

We will continue to invest in a number of areas including the PEM Phase III trials and clinical studies exploring additional uses of the implantable oncology bead products. Our sales and marketing costs will increase as we prepare to commence direct sales of the LC Bead™ in the US from 2012. We are already recruiting 21 additional medical science liaisons (MSLs) and account managers, who will join the existing small interventional medicine team.

In parallel with these investing activities we are focused on efficiency. We are confident of realising the £3m cost synergies from the Biocompatibles acquisition in the year to March 2012, and we are looking for further opportunities to improve efficiency across our operations.

We are pleased with the progress we have made in what has been a transformational year. We now have the product portfolio, commercial capabilities, opportunities and financial resources to deliver sustainable profitability in the medium term.

Principal risks and uncertainties

BTG's performance and prospects may be affected by risks and uncertainties relating to its business and to the environment in which it operates.

The Group's internal controls include a risk management process to identify key risks and, where possible, manage the risks through its systems and processes and by implementing specific mitigation strategies. The Group's risk management processes are described further in the corporate governance report on pages 44 to 51.

The most significant risks identified in an annual update of the Group's risk register that could materially affect the Group's ability to achieve its financial and operating objectives are summarised in this section. Other risks are unknown or deemed immaterial.

Risks and mitigating actions for 2010/11

Risk	Controls and mitigating actions
Interruption of product supply BTG relies on third-party contractors for the supply of key materials and services, such as filling and freeze-drying of end products. These processes carry risks of failure and loss of product. Problems at contractors' facilities may lead to delays and disruptions in supplies. Some materials and services may be available from one source only and regulatory requirements make substitution costly and time-consuming. BTG's polyclonal antibody products rely on serum produced from our sheep flocks in Australia, which could be subject to disease outbreaks. BTG relies on its single site in Wales for supply of manufactured product, with the consequent possibilities for disruption to supplies.	Rigorous monitoring of suppliers; dual sourcing implemented wherever possible; inventories monitored through sales and operational planning process and production changes implemented where needed to ensure continued product supply; regular checks made on sheep flock health; disaster recovery plans in place.
Patent validity, patent infringement litigation and changes in patent laws In common with all patents, BTG's patents can be subject to challenge at any time. Challenges can relate to the validity of patents or to alleged infringement of others' intellectual property, which might result in litigation costs and/or loss of earnings. BTG might be obliged to sue third-parties for their infringement of its patents. Failure by BTG to maintain or renew key patents might lead to losses of earnings and liability to suit from both the licensee and licensor. BTG may not be able to secure the necessary intellectual property rights in relation to products in development, limiting the potential to generate value from these products. Changes in patent laws and regulations in territories where BTG conducts its business that make it more difficult or time-consuming to prosecute patents, or which reduce the exclusivity period for granted patents, could adversely impact the Group's financial performance. BTG's patent portfolio is currently subject to several challenges.	Dedicated internal resource supplemented by external expertise monitors patent portfolio and third-party patent applications; processes in place to automate patent renewals; internal controls established to avoid disclosure of patentable material prior to filing patent applications.

Risks and mitigating actions for 2010/11

Risk	Controls and mitigating actions
Patent expiry, product supply, safety or compliance issues, or competition may reduce current revenues BTG's key current royalty-generating products are expected to continue to provide royalty revenues until their patents or licence agreements expire. Any unforeseen patent loss, supply, safety or compliance issues with these products could result in premature cessation of the revenues. BTG also earns revenues from sales of its acute care products CroFab® and DigiFab®. CroFab® is patent protected but DigiFab® has no patent protection; both products are protected by significant know-how and complex manufacturing processes, and BTG expects revenues to continue regardless of patent protection. However, future competition cannot be ruled out and competing products could materially adversely impact BTG's financial results. BTG's Bead products are subject to competition.	New royalty streams may emerge from our licensing activities. For example, ZYTIGA™ (abiraterone acetate) was approved as a treatment for men with advanced prostate cancer in April 2011 and BTG will earn a royalty on all sales; additional future royalty streams would result if alemtuzumab is approved to treat multiple sclerosis and AZD9773 (CytoFab™) if approved to treat severe sepsis. BTG acquired Biocompatibles International plc in January 2011 and acquired a portfolio of marketed products, providing another revenue stream and reducing the reliance on revenues from the acute care products. Mitigations with respect to the Bead products include product development, geographic expansion and the conduct of clinical studies to expand Bead product sales.
Product liability and other risks may not be capable of being adequately insured The manufacturing, testing, marketing and sale of BTG's products involve significant product liability and business interruption risks. As the developer, manufacturer and seller of certain products, BTG may be held liable for death or personal injury to persons receiving the products during the development phase or after the product is approved.	BTG maintains product liability insurance and operates quality systems relating to the manufacture of its products and a pharmacovigilance system to monitor safety events arising with respect to products sold.

Risk	Controls and mitigating actions
Failure to comply with regulations may result in prosecutions The pharmaceutical industry is highly regulated and the Group must comply with a broad range of regulations relating to the development, approval, manufacturing and marketing of its products. This is particularly true in the US, from which the Group derives most of its revenues and where the Group is establishing its own sales and marketing operations. Regulatory regimes are complex and dynamic, and alterations to the regulations may result in delays in product development or in the products becoming non-approvable. Ensuring compliance with such regulations necessitates allocation of significant financial and operating resources. Failure to comply with relevant rules, laws and regulations may result in criminal and civil proceedings against the Group. Significant breaches could result in large financial penalties, which could materially adversely impact the Group's financial performance and prospects. Moreover, failure by BTG or a BTG partner company to comply with regulations may result in a product being withdrawn from market with a subsequent loss of revenues.	A Code of Conduct has been provided to all employees supported by an ongoing training programme; compliance systems are in place to ensure sales and marketing activities comply with regulations in the US and other territories; standard operating procedures in place to ensure compliance with good clinical and manufacturing practice, monitored through quality control systems.
Inability to access new products and programmes may limit future growth Other than through the CellMed subsidiary acquired with Biocompatibles, BTG does not conduct fundamental research to generate its own development programmes but instead seeks to acquire new products and late-stage development programmes from other organisations. There is significant competition from other companies who may have greater financial resources and sales and marketing reach than BTG. BTG may not be able to acquire suitable products and programmes, which will materially adversely impact the Group's financial future performance and growth prospects.	Dedicated product acquisition team in place; strategy is to focus on niche opportunities that leverage BTG's US commercial operations and may be a better fit with BTG than with other organisations.

Risks and mitigating actions for 2010/11

Risk	Controls and mitigating actions
The success of development activities is uncertain BTG may not be able to access the later-stage development opportunities it seeks. The development of medical products is inherently uncertain and the timelines and costs to approval may vary significantly from budget or expectation. The product may not demonstrate the expected efficacy or safety benefits and may not be approved by the regulatory bodies, such as the US Food and Drug Administration. Manufacturing difficulties or patent litigation may cause programmes to be delayed or halted. Failure of a late-stage programme such as Varisolve® (PEM) would materially adversely impact the Group's financial prospects.	Experienced development team in place; focus is on acquiring later-stage programmes that have already demonstrated proof of concept and potentially have lower-risk development pathways; development programmes monitored to identify risks and challenges and recommend mitigating and corrective actions. Certain products are licensed to larger companies who may have greater resources to support product development.
Competition may erode revenues The Group operates in competitive markets. The products on which BTG currently earns revenues, or from which it anticipates earning revenues once on the market, face competition from other products that are already approved or in development. Competing products may have superior efficacy and side-effect profiles, cost less to produce or be offered at a lower price than BTG's products; such competition could materially adversely impact Group revenues.	BTG focuses on niche opportunities addressing specialist markets where there is limited competition and high barriers to entry; CroFab® has no current competitor and BTG estimates DigiFab® has about 80% market share; both products are complex to manufacture. We differentiate the embolisation and drug-eluting bead products from competitors by supporting clinical studies to generate safety and efficacy data.

Risk	Controls and mitigating actions
Pricing and reimbursement pressures are increasing There is increasing pressure on healthcare budgets causing payers to demand increasing treatment and economic benefits before agreeing to reimburse product suppliers at all or at appropriate prices. In March 2010, healthcare reform legislation was adopted in the US, requiring manufacturers to increase the rebates or discounts they give on products reimbursed or paid for by public payers including Medicaid and Medicare. The purpose of the reform is to increase healthcare coverage in the US population and to manage treatment of chronic conditions efficiently and cost effectively. Management of acute conditions is generally not affected. BTG's acute care and implantable oncology products treat serious medical conditions and the impact of healthcare reform on current Group revenues is not expected to be material to the Group's financial position. If BTG acquires products in future that are more impacted by healthcare reforms, revenue expectations could be lower. Failure of a product to qualify for government or health insurance reimbursement or the failure to achieve an appropriate sales price could adversely impact the Group's financial performance.	BTG focuses on niche products that address serious unmet needs; early on in a product's development the Group conducts pricing and reimbursement studies; the assessments of potential new products will include an assessment of healthcare reforms on pricing and reimbursement.
Currency and treasury effects can adversely impact results Many of BTG's revenues and receipts are denominated in US dollars and movements in foreign exchange rates could adversely impact results.	BTG actively manages its exchange risks where feasible, using short-term hedging transactions guided by market expectations and economic forecasts to seek to match actual receipts and payments over a rolling 12-month period to those forecast. This policy can result in both exchange gains and losses, but provides a level of certainty over cash receipts.

"We aim to make a positive impact by focusing our corporate responsibility activities in areas that are most relevant to our business. This helps to promote understanding of what we do, saves money and resources, and builds relationships and trust in our governance."
Rolf Soderstrom, CFO

We implement a structured approach to Corporate responsibility (CR) reporting, based on an annual plan and targets. We have chosen our reporting categories, listed below, in the belief that the business benefits from the implementation of good governance practices in each:

1. Business ethics
2. Research and development
3. Suppliers and customers
4. Community
5. Environment

Our CR Committee comprises individuals from across the business, meets quarterly to discuss new trends, set targets and monitors progress. This year we have started harmonising policies, procedures and processes across the Group to ensure that they reflect the larger consolidated business, following the acquisition of Biocompatibles in January 2011. This is a significant task which is ongoing.

The Committee reports to Rolf Soderstrom, our Chief Financial Officer and the Board member with responsibility for this area of the business.

1. Business ethics

Code of Conduct

We updated and launched our new Code of Conduct during the year, which is accessible on our corporate website. This describes the principles, policies and procedures that we have developed to promote ethical behaviour from all our employees, based on our foundation of core company values. It has been drafted in accordance with the relevant legal legislation where we do business. The core principle is that each one of us must take individual responsibility for our actions and behave ethically and compliantly.

To help support a good understanding of our Code of Conduct and our obligations as a supplier of medicines to patients and healthcare professionals, we provided training and mentoring for all employees through our Compliance Programme during the year. This will be extended to our new colleagues from Biocompatibles over the next few months. Training is mandatory and includes practical examples of good and bad practice as case studies for learning.

Employee engagement

We believe we can facilitate greater employee engagement in the business by providing forums for two-way dialogue, information exchange and collaborative working. These are especially important during times of significant change, such as during the recent acquisition of Biocompatibles. We have a structured internal communications framework for the Group, and we use a number of different communications channels, including our new SharePoint-based intranet, email and monthly companywide meetings.

We recently updated and reissued our HR Policy Guide. It has been developed to meet the needs of a changing organisation and will adapt as we grow. It provides our employees with a reference guide to help them understand the policies and procedures that affect their employment and benefits.

During the last year we partnered with the consultancy Great Place to Work® Institute, to launch an internal employee engagement survey to measure if our employees and leaders are living our company values and give us insights into general employee satisfaction. We received valuable feedback which we are already putting into action through local employee representative

committees and we plan to conduct our next survey in 2012.

Training and development
Our success depends on the abilities and skills of our employees and we recognise that training and development helps them fulfil their maximum potential, while also benefiting the business. Training and development is an important part of each employee's annual appraisal process and a training team is available in the UK to help identify suitable opportunities. Identified training and development needs are reviewed on a regular basis to ensure relevance for both the employee and the company. We launched the Horizon's Leadership Training Programme during the year to bring together our next generation of leaders to engage from a strategic, operational and capability perspective.

Work placements and internships are considered on a case-by-case basis and over a dozen were completed during the year. Our Australian manufacturing facility hosted two placements for engineering students from The University of Adelaide. During the next financial year our London office has partnered with the University of Exeter to host a Clinical Development Industrial Placement student for a year.

Status of business ethics targets

Targets for 2010–11:
Completed:
- Update the Code of Conduct to reflect harmonised HR policies and procedures across BTG and our new commercial activities, marketing and selling our own drugs in the US;
- Create a new HR Policy Guide, incorporating the updated Code of Conduct; make available to employees on the new intranet; and
- Launch an employee questionnaire to gauge if our employees are living our values and give insight into general employee satisfaction.

Targets for 2011–12:
- Complete Compliance training for our new colleagues at Biocompatibles sites and roll out a Compliance certification process for all employees; and
- Complete Horizons 2, the second companywide Leadership Training Programme.

2. Research and development
Researching and developing new medicines is fundamental to building a sustainable business. We have a broad internal pipeline of candidates in different stages of development.

Preclinical research
Our policy on the ethical treatment of animals in research ensures that all animal experimentation is performed to the highest standard of ethics, adhering to the three guiding principles of reduction, refinement and replacement. We will only perform studies in territories where animal studies are strictly regulated. Alternatives to animal use will always be assessed and *in vitro* testing performed as an alternative wherever possible.

Clinical development
We perform our clinical trials in accordance with the listed directives, applicable laws and the global standards of good practice (e.g. Good Clinical Practice (GCP), Good Laboratory Practice (GLP), Good Manufacturing Practice (GMP) and the Declaration of Helsinki) and summary information on our studies are made available on www.clinicaltrial.gov.

We always obtain written informed consent from trial subjects by providing fair and balanced information to help them understand the potential risks and benefits associated with participation in a given trial. The rights, safety and well-being of trial subjects are paramount and prevail over any commercial or business interests. We always protect the confidentiality of trial subjects and abide by data protection laws. We have set in place procedures to monitor and report any adverse events during trials to the relevant regulatory authorities.

Status of research and development targets

Targets for 2011–12:
- Launch online annual GCP certification training companywide; and
- Launch a new process to invite, evaluate, approve and implement independent programmes (grants, investigator-initiated studies, continuing medical education, etc.) that we intend to support.

3. Suppliers and customers

Suppliers

All our products are developed, tested and distributed according to the standard of good practice required by pharmaceutical and device regulators. We only appoint Contract Research Organisations (CROs), Contract Manufacturing Organisations (CMOs) and other third-party vendors that have a high standard of ethics and quality, that comply with good practice guidelines.

Customers

Our reputation depends on our ability to manufacture safe, quality and efficacious products for patients worldwide. We operate recognised quality management systems comprising the BS EN ISO 9001, BS EN ISO 13485:2003 standards, the FDA cGMP and MHRA/TGA GMP standards and good practice guidelines. Our Quality Policy Manual outlines our approach and commitment to quality and a comprehensive quality management system is currently being launched globally. Quality is regularly discussed during internal meetings and during personnel training and development to highlight its importance throughout the organisation.

This year we marked a significant milestone as we started selling our own approved products for the first time in our Company's history. With this comes a responsibility to new audiences with whom we are now interacting directly, including specialist physicians and patients. We have implemented appropriate policies and training to ensure we comply with all relevant regulations relating to our interactions with healthcare professionals.

We recruited, trained and launched our acute care US sales force in October 2010 in partnership with our Contract Sales Organisation (CSO) inVentiv Health and we expanded the force from 10 to 19 representatives in February 2011.
To support their activities we developed marketing materials and to provide a more general source of information we created and launched product websites. We also added a new section to our corporate website dedicated to US Healthcare Professionals, incorporating frequently asked questions (FAQs) on each product, a medical enquiry form and medical contact information, which links visitors through to an independent trained medical professional. We have ensured that the details for reporting suspected adverse events are clearly visible on the site.

All collateral used in the marketing or sale of our products underwent review through our new Promotional Review Committee, consisting of senior level expertise in Product Marketing, Medical Affairs, Legal and Compliance.

Status of suppliers and customers targets

Targets for 2010–11:
Completed:
- Update the Code of Conduct to incorporate a new Sales and Marketing Code of Conduct; and
- Develop a confidential 'whistle-blowing' hotline to incorporate ethical and compliance reporting.

Ongoing:
- Roll-out a Compliance Programme and certification process for all employees; and
- Devise an appropriate questionnaire incorporating CR questions to provide evidence of the level of ethical, quality and compliance practices of BTG's contractors.

Targets for 2011–12:
- Consolidate our different supplier questionnaires incorporating CR questions to provide evidence of the level of ethical, quality and compliance practices of BTG's contractors; and
- Launch the new Quality Policy Manual and provide training and development for UK employees to emphasise the importance of quality throughout the organisation.

4. Community

Community engagement

We recognise the importance of forging close relationships with local communities in the countries where we operate. This is especially important in our sites in West Wales and South Australia where we undertake activities to raise our profile and drive recruitment. We periodically organise open days for friends and family of employees at our manufacturing facility in Wales, as well as educational open days for local school children.

This year we participated in the Engineering Education Scheme, which gave 450 college students throughout Wales the opportunity to sample working alongside professional engineers. At our Australian site last year we held an educational open day for engineering students from the University of Adelaide. In Australia we also support a number of local community sports teams in which many of our employees participate. We see this as a reflection of our commitment to good health and teamwork.

Charitable donations

We principally give to charities which either support diseases or conditions in which we are therapeutically focused or that benefit the local communities in which we operate. We encourage employees to support charitable events to raise money for their chosen charities and in most locations we match individual donations up to a designated cap. During the last year we made donations to a number of charities and more information on these is available on our corporate website.

Charitable contributions made by the Group during the year £12,921 (09/10: £6,193).

We launched a new Give As You Earn (GAYE) scheme in the UK and we continue to evaluate options to provide this opportunity for our employees in other territories. During the next financial year we aim to launch a new global charitable donations policy to provide guidance to employees on our approach to giving.

Part of our policy is that we make no political donations, but lobbying is undertaken from time to time through our local industry associations.

Status of community targets

Targets for 2010–11:

Completed:

- Maintain our sustainable development sponsorships such as World Vision and Rwandan Orphans and increase donations to our local corporate charities;
- Launch the new Give As You Earn (GAYE) Scheme in the UK to provide a more efficient mechanism for employees to support their charity of choice; and
- Organise an activity day at the Melmark School near Philadelphia which provides residential, educational, therapeutic and recreational services for children and adults with developmental disabilities.

Targets for 2011–12:

- Launch a new global charitable donation policy to provide guidance to our employees and to ensure we are fair in our approach to giving and do so in line with our values; and
- Organise community/charitable activities at each office to raise money or donate time for our local corporate charities.

Charitable contributions made by the Group during the year (09/10: £6,193)

£12,921

The activity day at the Melmark School near Philadelphia which provides services for children and adults with developmental disabilities

5. Environment

Health and safety

We understand our responsibilities to protect the health and safety of our employees and the environment in which we operate. We conduct regular risk assessments, audits and training, and we fully comply with the requirements of local legislation, such as the Health and Safety at Work Act, 1974. BrachySciences have an NRC Radiation Licence, and employees involved in the receipt, processing and distribution of radioactive sealed sources have access to the Biocompatibles Inc. Radiation Safety Manual and receive annual radiation safety training. In the next year we aim to review our current Health and Safety policies across the Group with the objective of creating a coordinated management system, following the acquisition of Biocompatibles in January 2011.

Environment, Health and Safety (EHS) Committees meet regularly at each of our manufacturing sites, and we regularly remind employees of their obligation to report any incidents to ensure that measures can be taken for improvement. We maintain strong local relationships with Government Health and Safety bodies. This year the British Safety Council completed a Health and Safety audit of our Wales manufacturing facility and we achieved a four-star rating (out of five) and have been recommended for BS OHSAS18001:2007 Certification. We publish the annual Health and Safety incidence rates for our manufacturing sites and the Group has an excellent safety record with only four reportable incidents recorded during the last year.

Reportable incidents at manufacturing sites*

	2010/11	2009/10
Australia	0	0
Wales, UK	3	4
Farnham, UK	0	0
Oxford, CT, US	1	0

*Notifications under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) or local equivalent.

Sustainability

We aim to operate our business sustainably to help manage finite resources. We recycle paper, cardboard, plastic and metal at each of our sites and encourage the use of local materials, suppliers and contractors wherever possible and cost effective.

Our London office received a Gold Award last year in the 2010 Clean City Awards Scheme, improving on the merit received the year before. This Award recognises businesses with responsible waste management practices in the City of London.

Our manufacturing site in Wales aims to adopt additional environmental management systems such as ISO 14001 over the longer term. We also have an Integrated Pollution and Prevention Control (IPPC) permit in Wales from the Environment Agency and we plan to complete installation of a new waste water treatment plant during the next financial year. In Australia where water is a particularly valuable resource, we collect rain water in storage tanks, and we regularly review if there is a need to increase our water storage facilities.

Energy efficiency

We regularly assess the environmental impact of our business to ensure that we are taking advantage of all opportunities to improve our performance and efficiency.

We operate an international supply chain for the manufacture of our acute care products which involves international transportation over long distances. We aim to transport in bulk where possible and use the most efficient transportation to save money for the Company and reduce our carbon emissions. We have a number of initiatives underway to evaluate whether there are any manufacturing cost savings or other efficiencies to be made and we aim to report progress during the next financial year.

We monitor electricity and gas consumption at manufacturing sites and offices which employ more than 20 people, and we try to reduce carbon emissions and increase energy efficiency wherever possible. Our office space is rented so we liaise with local landlords and managing agents to ask about the deployment of energy efficient systems. We are not currently collecting emissions data on transport/logistics but we are reviewing this for potential inclusion during the next financial year. We currently fall

Site energy consumption and equivalent CO_2 emissions in tonnes during the financial year

	Electricity consumption (MWh)	Gas and oil consumption (MWh)		Total equivalent CO_2 emissions (tonnes)
London, UK	180	–		97
Wales, UK	3,554	304	(Gas Oil)	1,960
Farnham, UK*	165	96	(Natural Gas)	89
Oxford, CT, US*	32	29	(Natural Gas)	20
		1	(Propane Gas)	
Philadelphia, PA, US	507	–		272
Alzenau, Germany*	158	12	(Natural Gas)	70
Australia	559	–		300
Total	5,155	442		2,808

*We only include data from these former Biocompatibles sites from January to March 2011, following the completion of the acquisition of Biocompatibles International plc.

below the threshold for participation in the UK Government's Carbon Reduction Commitment Scheme.

Additional initiatives are in place to reduce our carbon footprint. During the course of the last year we have installed net meeting software on computers and videoconference equipment in a number of offices to provide an alternative to business travel. Our manufacturing facility in Australia is making good progress towards achieving Bronze Greenbiz certification, designed to give small and medium sized organisations ways to measure eco-efficiency footprints and we envision completing this milestone in the next financial year. We aim to develop Group policies for the management of environmental, Health and Safety across all sites to reflect the consolidated business following the acquisition of Biocompatibles in January 2011.

Status of suppliers and customers targets

Targets for 2010–11:
Ongoing:
- Complete installation of a new waste water treatment plant at our manufacturing site in Wales, which should be fully operational early in the next financial year; and
- Achieve a Greenbiz Certificate at our manufacturing facility in Australia, which is designed to give small and medium organisations ways to measure eco-efficiency footprints.

Targets for 2011–12:
- Review and restructure environmental, health and safety across all sites ensuring common policies are in place and in use; and
- Drive use of common metrics and reporting standards across all sites.

Further information on our approach to corporate responsibility and data is available on our corporate website at www.btgplc.com in the responsibility section.

BTG is a member of the FTSE4Good index series, designed to objectively measure the performance of companies that meet globally recognised corporate responsibility standards.

Directors and governance

36

The report from the directors, our governance and remuneration reports.

Directors and governance

John Brown Chairman

John Brown, PhD, MBA, FRSE, joined the Board of BTG in January 2008 and was appointed non-executive Chairman in March 2008. He is the Chairman of the Nomination Committee. John is Chairman of Axis-Shield plc and a non-executive director of Vectura Group plc. He is Chairman of the Roslin Foundation and a non-executive director of the Technology Strategy Board. Until late 2003, John was Chief Executive of Acambis plc. He is a Fellow of the Royal Society of Edinburgh and an Honorary Professor of the University of Edinburgh.

Louise Makin Chief Executive Officer

Louise Makin joined BTG as Chief Executive Officer in October 2004 and she is a non-executive director of Premier Foods plc. From 2001, she was President, Biopharmaceuticals Europe of Baxter Healthcare, where she was responsible for Europe, Africa and the Middle East. Louise joined Baxter Healthcare in 2000 as Vice President, Strategy & Business Development Europe. Before joining Baxter, she was Director of Global Ceramics at English China Clay and prior to that she held a variety of roles at ICI between 1985 and 1998. Louise has an MBA, and holds an MA in Natural Sciences and a PhD in Metallurgy from the University of Cambridge.

Rolf Soderstrom Chief Financial Officer

Rolf Soderstrom, BA, ACA, joined BTG as Chief Financial Officer in December 2008 from Protherics PLC, where he was Finance Director from August 2007. From 2004, he was a Divisional Finance Director of Cobham plc, managing a portfolio of businesses across Europe and the US. From 2000 he was a Director of Corporate Finance at Cable & Wireless plc. Prior to this, he worked in the Corporate Recovery and Corporate Finance Department of PricewaterhouseCoopers after qualifying as a Chartered Accountant.

Peter Chambré Non-executive director

Peter Chambré joined BTG as a non-executive director in September 2006 and he is a member of the Nomination, Audit and Remuneration Committees. Peter is Chairman of Axellia Pharmaceuticals AS, OneMed Group AB and 7TM Pharma A/S. He is also a non-executive director of Spectris plc, the precision instrumentation and controls company. Peter was Chief Executive Officer of Cambridge Antibody Technology Group plc from 2002 until its acquisition by AstraZeneca plc in 2006. Previously he was Chief Operating Officer of Celera Genomics Group and Chief Executive of Bespak plc.

Giles Kerr Non-executive director

Giles Kerr joined BTG as a non-executive director in October 2007 and is the Company's Senior Independent Director. He is Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees. Giles is currently the Director of Finance with the University of Oxford, UK. He is also a Director of Victrex plc, Elan Corporation plc and Isis Innovation Ltd. Previously Giles was the Group Finance Director and Chief Financial Officer of Amersham plc, acquired by GE Healthcare in 2004. Prior to his role at Amersham, he was a partner with Arthur Andersen in the UK. He is a graduate of the University of York and a Fellow of the Institute of Chartered Accountants in England and Wales.

Melanie Lee Non-executive director

Melanie Lee, PhD, CBE, FMedSci, DSc (Hons), joined BTG as a non-executive director in November 2010 and she is a member of the Remuneration Committee. Melanie is the CEO of Syntaxin Limited, a biotechnology company developing novel biopharmaceuticals to control cell secretion, and Founder and Director of the pharmaceutical consultancy Think10. She also chairs the board of Cancer Research Technology Limited, the technology development and commercialisation arm of Cancer Research UK. Melanie was formerly President of New Medicines and Executive VP R&D with UCB, having been R&D Director and a member of the board of Celltech plc.

Ian Much Non-executive director

Ian Much joined BTG as a non-executive director in August 2010. He is Chairman of the Remuneration Committee and a member of the Audit Committee. Ian is currently a non-executive director and the senior independent director of Chemring Group PLC, Senior plc and Simplyhealth Group. Ian was Chief Executive of De La Rue plc between 1998 and 2004 and Chief Executive of T&N plc between 1996 and 1998. Previous non-executive director appointments include Manchester United plc, Camelot plc and Admiral plc.

James O'Shea Non-executive director

Jim O'Shea joined BTG as a non-executive director in April 2009 and he is a member of the Nomination and Remuneration Committees. He is a director of Zalicus Inc and a former Chairman of the US National Pharmaceuticals Council. From 2007 to 2008, he was Vice Chairman of Sepracor, Inc, where he was also President and Chief Operating Officer from 1999 to 2007. Previously Jim was Senior Vice President of Sales & Marketing and Medical Affairs for Zeneca Pharmaceuticals (US), a business unit of Zeneca Inc. While at Zeneca, he held several management positions of increasing responsibility in international sales and marketing in the US and the UK.

The directors present their Annual Report on the affairs of the Group, together with the audited financial statements for the year ended 31 March 2011.

Principal activities and business review

The principal activity of the Group is as an international specialist healthcare company, developing and commercialising products targeting critical care, cancer and other disorders. The Group is building a sustainably profitable business financed by revenues from sales of critical care and interventional oncology products, and from royalties and milestone payments on partnered products. The results of the Group are set out in detail on pages 74 to 78 and the accompanying notes.

The information that fulfils the requirements of the business review, including a review of the business, the principal business risks, key performance indicators and likely future developments, can be found in the Chief Executive Officer's review on pages 16 to 19, the business review on pages 20 to 29 and the corporate responsibility report on pages 30 to 35. These are incorporated into this report by reference.

Further information on the Group is available on the Company's website: www.btgplc.com

Results and dividends

The results for the year and the financial position at 31 March 2011 are shown in the consolidated income statement on page 74 and the consolidated statement of financial position on page 76. The directors do not recommend the payment of a dividend for the year (2010: nil). The results of the Group for the year are explained further on pages 21 to 24.

Directors and their powers and interests

The directors of the Company at the date of this report, together with their biographical details and dates of appointment, are shown on pages 38 to 39. The Board confirms that each of the directors who served during the year has been formally appraised during the period and that they continue to demonstrate commitment to the Group, the Board and to their role.

The Board has decided that all the directors of the Company will stand for election or re-election annually in future in accordance with the new UK Corporate Governance Code published by the Financial Reporting Council in June 2010. The Board is proposing the election of Melanie Lee and Ian Much, who have been appointed to the Board since the last AGM, and the re-election of the other directors.

Colin Blakemore, who joined the Board in 2007, retired at the time of the AGM on 13 July 2010. William Jenkins, having been a director since 2002, retired from the Board on 4 February 2011.

In accordance with the Company's articles of association, throughout the year the Company has maintained cover for its directors and officers and those of its subsidiary companies under a directors' and officers' liability insurance policy as permitted by sections 232 to 235 of the Companies Act 2006. The Company has entered into separate Deeds of Indemnity in favour of each of its directors to the extent permitted by law. Neither the insurance nor the indemnities provide cover where the relevant director or officer has acted fraudulently or intentionally breached the law.

Information on directors' remuneration, contracts, options and their beneficial interests, including those of their immediate families, in the shares of the Company are shown in the remuneration report on pages 57 to 68. None of the directors had an interest in any contract of significance to which the Company or any of its subsidiaries was party during the year.

Corporate governance

A report on corporate governance may be found on pages 44 to 51.

Corporate responsibility
Information on the Company's social, environmental, health and safety and ethical considerations, charitable donations and policies regarding its employees may be found in the corporate responsibility report on pages 30 to 35.

Acquisition of Biocompatibles International plc
On 19 November 2010, the Board of BTG announced that it had agreed the terms of a recommended offer with the board of Biocompatibles International plc to acquire the entire issued and to be issued share capital of Biocompatibles. The acquisition was effected by a Scheme of Arrangement under Part 26 of the Companies Act 2006. Under the terms of the Scheme, Biocompatibles shareholders who were on the register of members at 6pm on 26 January 2011 were entitled to receive 1.6733 new BTG shares and 10p cash for every Biocompatibles share they held at that date. The acquisition became effective on 27 January 2011 and the new BTG shares were admitted to trading on the London Stock Exchange at the start of business on 28 January 2011. They were credited as fully paid and ranked *pari passu* in all respects to the existing BTG shares.

As an alternative to receiving the 10p cash element of the consideration, Biocompatibles shareholders were entitled to elect to receive an entitlement to a contingent right to payment of the Sterling equivalent of €0.56 per Biocompatibles share in cash (the Partial CVN Alternative) by participating in value that may potentially be achieved from part of Biocompatibles' programme to develop the GLP-1 Compound, which it has partnered with AstraZeneca. If they opted for the Partial CVN Alternative they received one Contingent Value Note (CVN) for every Biocompatibles share they held at 26 January 2011. The CVNs are not listed on any stock exchange and are only tradable on a 'matched bargain' basis. Those non-UK shareholders who were not entitled to opt for the CVN received the 10p cash element. See note 38 on pages 125 to 127 for further information.

The Company announced on 13 May 2011 that AstraZeneca had terminated the development and option agreement relating to CM-3, a GLP-1 analogue being developed by BTG's CellMed subsidiary for use in type 2 diabetes and other indications. As a result of AstraZeneca's decision to terminate the development and option agreement, it is highly unlikely that any payment will be made in relation to the CVNs. The payment obligation would only now arise if BTG enters into another form of licence, sale or other disposal of the GLP-1 asset to AstraZeneca prior to 31 December 2012. In light of AstraZeneca's decision to terminate the development and option agreement, the BTG Board does not believe that there is any realistic possibility that this will occur.

As a result of the termination of this option agreement, BTG's results for the year ending 31 March 2012 will include non-cash accounting charges in relation to the CVNs and the impairment of the intangible book value ascribed to CM-3 at the time of BTG's acquisition of Biocompatibles in January 2011 totalling approximately £8m (see note 39 on page 127 for further information).

BTG will now review options for this programme as part of the ongoing portfolio review following the acquisition of Biocompatibles.

Share capital and shareholders
During the year 68,723,244 ordinary shares were issued pursuant to the acquisition of Biocompatibles referred to above. A further 365,086 were released to employees and former employees of BTG as a result of the exercise of share awards under the Company's employee share schemes. There are no restrictions on voting rights or on the transfer of securities. Share capital is comprised solely of ordinary shares and all have the same voting rights.

The BTG Employee Share Trust holds shares in the Company which may be used for the benefit of employees. The shares held by the Trust have the same rights as those held by all other shareholders. Further details of the Trust are set out in note 31 to the financial statements on page 117.

Details of outstanding share options and awards are set out in note 30 to the financial statements on pages 113 to 116.

Details of the movements in the Company's share capital are shown in note 24 to the financial statements on pages 107 and 108. At 31 March 2011, the Company had 12,080 shareholders (2010: 9,199). Further details of shareholdings and company reporting dates may be found on page 138.

At the date of this report the Company had been notified of the following interests held, directly or indirectly, in 3% or more of the Company's issued share capital.

	Shareholding	% holding
Invesco Asset Management Ltd	91,567,192	28.03
M&G Investment Management Ltd	45,952,581	14.06
Schroder Investment Management Ltd	18,858,959	5.77
AXA Framlington Investment Management Ltd	13,169,129	4.03
Legal & General Investment Management Ltd	11,323,186	3.47
Aviva Investors Global Services Ltd	11,103,133	3.40
Standard Life Investments Ltd	11,012,639	3.37
Hunter Hall Investment Management	9,855,644	3.02
Norges Bank	9,810,443	3.00

Articles of association

The Board may exercise all the powers of the Company, subject to the provisions of relevant statutes, the Company's articles of association (the Articles) and any directions given by a special resolution of the shareholders. The Articles, for instance, contain certain specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing and buying back of shares are included in the Articles and are subject to such authorities being approved annually by shareholders at the AGM. There is no current intention of requesting the authority to buy back shares of the Company. The rules for the election and re-election of directors are set out in the Articles however, as reported on page 46 of the corporate governance report, the directors propose to stand for re-election at each AGM as from this year, in accordance with the new UK Corporate Governance Code.

Change of control

There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank facility agreements, guarantees, property agreements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occur because of a takeover bid.

Policy on payment of creditors

It is the BTG Group's policy to abide by the terms of payment agreed with suppliers. In many cases, the terms of payment are as stated in the supplier's own literature. In other cases, the terms of payment are determined by specific written or oral agreement.

At 31 March 2011 the total owed to trade creditors by the Group was equivalent to 33 days average purchases (2010: 41 days). The Company had no trade creditors at that date (2010: nil).

Going concern

On the basis of current financial projections and cash resources and facilities available, and after making enquiries, the directors believe that the Company has adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Annual General Meeting
The Annual General Meeting of the Company will be held at 10.30am on 20 July 2011 at the offices of Stephenson Harwood, 1 Finsbury Circus, London EC2M 7SH. Matters to be considered at the meeting include resolutions to receive the Annual Report and Accounts, to re-appoint the auditor and elect or re-elect the directors. Further details are set out in the Notice of the Annual General Meeting which is enclosed with this report.

Disclosure of information to the auditor
The directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor
Resolutions will be proposed at the forthcoming Annual General Meeting, to re-appoint KPMG Audit Plc as auditor and to authorise the directors to determine its remuneration.

By order of the Board

Paul Mussenden
Company Secretary

24 May 2011

The Board of BTG recognises its accountability to shareholders and believes that good corporate governance is essential to running a successful company. The Board is committed to ensuring that high levels of corporate governance are maintained that underpin the management of the Company's affairs. This report explains how the Company applies the principles of the 2008 Combined Code on Corporate Governance (the Code), published by the Financial Reporting Council (FRC).

The Board considers that the Company complied with all the provisions set out in Section 1 of the Code throughout the year to 31 March 2011. More information on the Code can be found on the FRC website, www.frc.org.uk.

Board composition, responsibilities and balance

The Board comprises six non-executive directors, including the Chairman, and two executive directors. The Board is chaired by John Brown who is responsible for leading the Board and ensuring the effectiveness on all aspects of its role. The Chief Executive Officer (CEO), Louise Makin, is primarily responsible for the running of the Group. Rolf Soderstrom, Chief Financial Officer (CFO), is responsible for all financial reporting, tax and financial control aspects of the Group.

The Board has appointed Giles Kerr as the Senior Independent Director (SID). The principal role of the SID is to support the Chairman in his role, to work with the Chairman and other directors to resolve any significant issues that may arise, to lead non-executive directors in the oversight of the Chairman and to ensure there is a clear division of responsibility between the Chairman and Chief Executive Officer. He is also available to shareholders to express concerns which the normal channels have failed to resolve or which would be inappropriate.

The names and brief biographical details of all the directors are set out on pages 38 to 39. The table below details the composition of the Board, its Committees, together with their attendance at meetings since the last Annual Report and the Company's assessment of the independence of the directors.

Board and Committee composition and attendance	Committee memberships	Independent	Board meetings	Nomination Committee	Audit Committee	Remuneration Committee
Total number of meetings			10	5	3	5
Executive directors						
Louise Makin (CEO)		No	10/10	N/A	N/A	N/A
Rolf Soderstrom (CFO)		No	10/10	N/A	N/A	N/A
Non-executive directors						
John Brown (Chairman)	Nomination	No[a]	10/10	5/5	N/A	N/A
Colin Blakemore[b]	Audit, Remuneration	Yes	1/1	N/A	N/A	N/A
Peter Chambré	Audit[c], Remuneration, Nomination	Yes	10/10	5/5	3/3	5/5
William Jenkins[d]	Audit, Remuneration	Yes	7/8	N/A	1/1	2/3
Giles Kerr	Audit, Remuneration, Nomination	Yes	10/10	5/5	3/3	5/5
Melanie Lee[e]	Remuneration	Yes	4/5	N/A	N/A	1/1
Ian Much[f]	Audit, Remuneration	Yes	9/9	N/A	3/3	4/4
James O'Shea	Remuneration, Nomination	Yes	10/10	5/5	N/A	5/5

a John Brown is excluded from the determination of independence by virtue of his role as Chairman of the Company.
b Colin Blakemore resigned from the Board and Committees at the date of the AGM on 13 July 2010.
c Peter Chambré joined the Audit Committee on 1 November 2010.
d William Jenkins resigned as Chairman and as a member of the Remuneration Committee and of the Audit Committee on 24 January 2011 and from the Board on 4 February 2011.
e Melanie Lee joined the Board on 29 November 2010 and joined the Remuneration Committee on 23 March 2011.
f Ian Much joined the Board on 1 August 2010. He was appointed to the Remuneration and Audit Committees on 28 September and 1 November 2010 respectively and became Chairman of the Remuneration Committee on 24 January 2011, following the resignation of William Jenkins.
g Directors who are not Committee members may attend meetings by invitation. Details are not included in the table. The external auditor usually attends the Audit Committee meetings.

The Board applies a rigorous process in order to satisfy itself that its non-executive directors remain independent. The Board reviews the independence of the non-executive directors every year, using its own judgement when applying the criteria in the Code. Having undertaken this review, the Board confirms that all the non-executive directors are considered to be independent in character and judgement. In line with the recommendations of the Code, at least half the Board, excluding the Chairman, are independent non-executive directors. The Chairman, John Brown, was considered to be independent at the date of appointment although, in accordance with the Code, he is excluded from the determination of the independence of the non-executive directors thereafter.

The Board has a number of matters specifically reserved for its decision or approval. These include the approval of the interim and annual financial statements, the interim management statements and major public announcements, setting strategic direction, budgets and long-term plans. Other areas include the approval of major investments and disposals, major capital expenditure, major litigation, significant financing, dividend policy and senior executive remuneration.

The Board as a whole monitors operating performance, the performance of management, succession planning, health, safety and environmental performance and standards of ethical and social behaviour. It is also responsible for developing robust corporate governance, legal compliance and risk management procedures aimed at safeguarding the Company's reputation and assets and the integrity of its financial information and business conduct.

While the executive and non-executive directors are collectively responsible for the success of the Company and have fiduciary duties towards shareholders, their roles are strictly delineated. The executive directors have direct responsibility for the business operations of the Company, the non-executive directors have a responsibility to bring independent and objective judgement to Board decisions and the Chairman's primary responsibility is for the effective running of the Board. The non-executive directors' duties include helping to develop the Company's strategy and constructively challenging the executive directors where they consider it appropriate.

To address the effect of Section 175 of the Companies Act 2006 (directors' conflicts of interests), the Company's articles enable the Board to authorise situations that might give rise to directors' conflicts of interest. Directors complete a declaration form in order to determine whether any actual or potential conflicts need authorisation. The forms are reviewed annually to ensure that the information provided is up to date and includes any disclosures made during the past year.

At the March 2011 Board meeting all directors were asked to review and make any necessary amendments to their existing declarations. The Company Secretary has reviewed the latest declarations and has confirmed that no conflicts have arisen. Board members are reminded at regular intervals to disclose any conflicts should they arise.

All such notifications are kept in a conflicts register maintained by the Company Secretary. Any director who considers they may have a potential conflict of interest should report this to the Chairman in the first instance, who may consult the Nomination Committee and report their findings to the Board.

There is an agreed procedure for directors to take independent professional advice, if necessary, at the Company's expense. Directors have direct access to the advice and the services of the Company Secretary who is responsible for ensuring that Board procedures are followed. The Company arranges appropriate directors' and officers' liability insurance. The removal of a director or of the Company Secretary is a matter for the Board as a whole.

Information and training, performance evaluation and re-election of directors

The directors are sent an agenda and a full set of papers for each item to be discussed, in advance of each Board or Committee meeting. Additional information is provided as appropriate and senior executives regularly make presentations at Board meetings on the results and strategies in their areas of responsibility. Board meetings are sometimes held at different office locations enabling non-executive directors an additional opportunity to visit other Company sites.

Upon joining BTG, each director receives a comprehensive induction pack, including written information and opportunities to meet key and relevant members of staff. All directors refresh their knowledge regularly through publications and conferences and through information provided by the Company and its advisers.

The Board evaluates its own effectiveness and that of its Committees on an annual basis, both through measuring performance against annual objectives and through an individual appraisal process. The Chairman of each Committee reports the results of the reviews back to the Board with identified areas for future action.

The CEO is responsible for appraising the performance of the CFO, the Chairman and non-executive directors review the performance of the CEO. Each director was asked to complete a questionnaire comprising both qualitative and quantitative responses. The Chairman subsequently interviewed each director separately to discuss their individual performance as a director over the past year, the effectiveness of the Committees and the Board as a whole and how it might improve its monitoring of the business. The non-executive directors, led by the Senior Independent Director and following input from the executive directors, evaluated the performance of the Chairman. The Committees also reviewed their performance and reported the results to the Chairman and the Board as a whole. The operation of the Board and its members was considered to be effective and no particular issues were identified. The non-executive directors meet at least once a year without the executive directors in order to discuss the performance of the executive directors and any concerns over their management of the Company's affairs.

The Financial Reporting Council published The UK Corporate Governance Code (the Code) in June 2010. The Code has provided updated recommendations in many areas of corporate governance, and applies to all companies whose accounting period commences on or after 29 June 2010. The Board has noted the provision that evaluation of the boards of FTSE350 companies should be externally facilitated at least every third year and has requested that arrangements be made to enable this to take place in future.

The Board reviews its constitution regularly and has established a clear plan for refreshing its members. Changes to the composition of the Board during the year have been as follows: Ian Much joined the Board on 1 August 2010 and Melanie Lee joined on 29 November 2010. Colin Blakemore retired from the Board on 13 July 2010 having served since 2007 and William Jenkins retired from the Board on 4 February 2011, having served since 2002. Following these changes the Board comprised a non-executive Chairman, five independent non-executive directors and two executive directors. As reported in the Nomination Committee report on page 56, the Committee continues to review the composition of the Board on a regular basis to ensure that, as the business evolves, the Board continues to have the necessary skills to continue the development of the business.

Among other provisions in the Code is a proposal that the directors of all FTSE350 companies should stand for election every year rather than every third year as at present. Along with many other FTSE350 companies, the Board has decided to adopt the proposal early and all directors will stand annually for election as from this year.

Ian Much and Melanie Lee, having been appointed to the Board since the last AGM, are standing for election for the first time while all the other directors are standing for re-election. Following a formal evaluation process, the Chairman is satisfied that each of the directors continues to perform effectively and demonstrates commitment to their role, including commitment of time for Board, Committee meetings and their other duties.

Led by the Senior Independent Director, the non-executive directors met without the Chairman being present, to consider the Chairman's performance. The Senior Independent Director and other non-executive directors are satisfied that he continues to perform effectively and demonstrates commitment to his role, including commitment of time for Board, Committee meetings and his other duties.

Further information on the directors is shown in their biographies on pages 38 to 39.

Financial reporting and internal control

The statement of directors' responsibilities in relation to the preparation of the financial statements is set out on page 69 and the auditor's statement on the respective responsibilities of directors and the auditor is included within its report set out on pages 70 and 71.

Communications with shareholders, be they results announcements, interim reports, annual reports or AGM and trading updates, are reviewed carefully and approved by the Board, or a sub-committee thereof, in order to ensure they are transparent and balanced in the view they give of the Company's progress and prospects.

The Board has overall responsibility for ensuring that the Group maintains an adequate system of internal control and risk management and for reviewing its effectiveness. The Audit Committee on behalf of the Board undertakes the detailed monitoring of the controls, at least annually, and reports to the Board on its findings. The Board has reviewed the system of internal controls including financial controls for the year under review and up to the date of approval of this Annual Report and Accounts. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The criteria applied by the directors in judging the effectiveness of these controls are that they allow the maximisation of shareholder value by exploiting business opportunities while ensuring that risks are properly identified and managed. The controls are regularly reviewed to ensure that they enable the proper management of business risks without so restricting efficiency and entrepreneurial nature that they inhibit proper running of the business.

BTG has a management structure with clear lines of responsibility and accountability, staffed by appropriate personnel. The Board is responsible for setting the overall strategy and reviewing the performance of the Group.

Structure and reporting

The day-to-day running of BTG's operations is managed by the Company's Leadership Team, chaired by the CEO. Other members include the CFO and senior staff members from the business. This team is also responsible for the recommendation to the Board of the Company's strategy and its subsequent implementation, for ensuring that appropriate internal controls are in place to manage and assess risk and that they are fully complied with. The fundamental elements of the Group's internal control and risk management framework are described below.

The Group has well-defined management structures and processes for acquisition, assessment and evaluation of technology opportunities, and development and execution of commercialisation strategies and a number of committees report to the Leadership Team that monitor various parts of the business:

- Development Leadership Team: This evaluates new technology opportunities, and is intimately involved in the development and execution of commercialisation strategies;
- Operational Leadership Team: This is responsible for ensuring that the manufacturing and supply chain parts of the business are tightly controlled and their operations are optimised as far as possible;
- Risk Committee: This is responsible for monitoring risks throughout the organisation and reporting findings to the Audit Committee twice yearly;
- Compliance Committee: This is responsible for maintaining a complete compliance system to ensure that the Group is fully compliant with all applicable laws (including US Federal and State requirements) that relate to the commercial operations of the Group, including its US sales and marketing team. This Committee reports to the Audit Committee at least twice yearly;
- Corporate Responsibility Committee: This is responsible for ensuring the Group maintains high standards in this area; and
- Integration Committee: Following the acquisition of the Biocompatibles Group in January 2011, the Company has set up an Integration Committee to manage all aspects of bringing the two businesses together. This Committee will continue its work during the coming year.

Compliance and the review of risk and risk management are embedded throughout the Group. The Audit Committee has reviewed the detailed report of the Risk Committee and Compliance Committee and reported its findings to the whole Board. For further details see the Audit Committee report on pages 52 to 55. The Board has reviewed the risk management process and confirms that ongoing processes and systems ensure that BTG continues to be compliant with the guidance on internal control issued by the Code.

BTG actively monitors its royalty revenue streams and from time to time audits its major licensees to ensure compliance with the terms of agreements. BTG also has a system for supporting the protection and maintenance of patents.

The Leadership Team meets formally at least once each month to review business performance measured against annual budgets and longer-term plans and an agreed set of objectives and performance criteria for each business unit. Forecasts are reset quarterly on the basis of detailed reviews of progress and prospects. Reporting to the Board is based on these monthly and quarterly assessments. The reports include non-financial as well as financial information and a review of development progress with the portfolio.

Approval procedures

The Group has delegated authority structures that ensure that decisions are taken at an appropriate level, with an appropriate level of input by internal and external expert advisers. The delegated authority structure prescribes financial limits of approval at each level and requires decisions with significant financial, legal or reputational impact for BTG to be approved by the Board. The process has been reviewed during the year, following the acquisition of the Biocompatibles Group, and a revised Group-wide structure has been put in place.

Corporate policies, values and compliance

During the year a new Code of Conduct was issued and all employees within the Group received appropriate training on its key requirements. The Code of Conduct covers all aspects of ethics, business practices and compliance, including an updated whistle-blowing policy, an anti-bribery and corruption policy and policies related to the ethical conduct of research and development and interactions with doctors and other healthcare professionals. Relevant employees meet regularly to discuss external changes in the regulatory, legal and financial environments in which BTG operates to ensure it remains fully compliant with new legislation and best practice. The Group also runs periodic sessions updating staff on key issues affecting the business.

The Board, through the Audit Committee, has reviewed the effectiveness of the internal controls of the Group. The controls described above operate and are embedded within the day-to-day business. There is an ongoing process for identifying, evaluating and managing significant risks faced by the Group. A reporting structure has been in place throughout the year, up to the date of approval of the financial statements and is regularly reviewed by the directors in accordance with the Code. Further information is given in the Audit Committee report on pages 52 to 55.

Related parties and conflicts of interest

BTG maintains robust procedures to ensure that related party transactions and potential conflicts of interest are identified, disclosed and managed. The directors are required to declare interests in other businesses on appointment to the Board and thereafter complete an annual self-certification. Directors are also reminded at Board meetings to declare any changes. Where it is identified that a related party relationship exists, the Board agrees specific additional procedures to ensure the effective management of potential conflicts of interest.

Giles Kerr, a non-executive director of BTG plc, is also the Director of Finance at Oxford University and a director of Isis Innovations Limited, a wholly owned subsidiary of Oxford University. Melanie Lee is chairman of Cancer Research Technology Ltd. Wholly owned subsidiaries of BTG plc entered into revenue sharing agreements with these organisations in each case prior to either Giles Kerr or Melanie Lee joining the BTG Board. The BTG Group has licensed the Intellectual Property covered by these agreements to third-party companies that are developing and/or selling the licensed products. Under these licence agreements, BTG is entitled to receive milestone payments and/or a royalty on sales of the products made by the third-party licensees.

Under the various revenue-sharing agreements, the BTG Group pays a share of any income it receives to Oxford University, Isis Innovations or Cancer Research Technology Ltd, depending on the specific technology that generated the income. As the revenue sharing agreements do not permit these organisations to have any input over the commercialisation of the licensed products or the amount payable under the relevant revenue sharing agreement, Giles Kerr and Melanie Lee are not able to influence the amounts received in their positions outside BTG. Because they have no influence over any aspect of these agreements in their roles outside the BTG Group, the Company considers that their independence in relation to the BTG Group is not compromised.

Within the BTG Group, to avoid any possible conflict of interest, it has been agreed that Giles Kerr and Melanie Lee will not participate in any discussions concerning the relevant agreements either within the Board meetings of BTG plc or in any other discussions or meetings with the executives of BTG plc and its subsidiaries.

The Board has considered, and is satisfied with, this separation of duties. See note 36 on page 123 for additional related party disclosures.

Market abuse directive

The Company has a Disclosure Committee, as required by the Market Abuse Directive, comprising the CEO, CFO and the Director of Investor Relations. The Committee reviews all significant items of business within the Group regularly, and on an *ad hoc* basis if required, and maintains an Insider List recording both those employed within the Group and as external advisers who may have access to inside information. Whenever individuals are placed on or removed from the List they are notified accordingly and advised of their responsibilities.

Relations with shareholders and constructive use of the AGM

BTG endeavours to maintain good communications with shareholders through the appropriate channels. The Company formally reports its results twice a year with full year results announced in May and interim results in November. The CEO and CFO give presentations of these results to the Company's institutional shareholders, analysts and the media. The presentations are broadcast live on the internet for the information of shareholders and are available thereafter as an archive on the Company's website. In addition, the Company prepares Interim Management Statements in January and July that are released to a regulatory news service and are available on the Company's website.

The CEO and CFO meet regularly with institutional investors with support from the Investor Relations department. The Chairman, Senior Independent Director and other directors are available to meet with major shareholders on request. As part of his role as the Senior Independent Director, Giles Kerr is available to shareholders when contact with the executive directors or the Chairman may not be appropriate. No requests have been received from major shareholders to meet with the Chairman, Senior Independent Director or other non-executive directors during the year, although the Chairman met with a number of institutional shareholders as part of the Company's shareholder communications programme. The Investor Relations department acts as a contact point for investors throughout the year.

The directors receive a report from the Investor Relations department at each Board meeting giving information on the changes in shareholdings and any feedback from the Company's brokers and investors. Following the twice-yearly results announcements, detailed feedback from external advisers and brokers is provided to the Board, outlining the views and reactions of investors and analysts. This enables the Board to develop an understanding of the issues and concerns of major shareholders.

The Annual Report contains a full business review and the interim report, which is available on the Company's website, gives an update at the half year. Extensive information, including annual and interim reports, interim management statements and all press releases, is published on the Company's website (www.btgplc.com) for access by all shareholders. In addition, through the website, individuals can register to receive electronic copies of all Company announcements on the day they are issued.

The AGM is the principal opportunity for private shareholders to meet and discuss the Group's business with the directors and other senior management. A full business presentation is given and there is an open question and answer session during which shareholders may ask questions both about the resolutions being proposed and the business in general. The directors are available after the meeting for an informal discussion with shareholders.

Notice of the AGM, which will be held at 10.30am on 20 July 2011, at the offices of Stephenson Harwood, 1 Finsbury Circus, London EC2M 7SH, is included with this report. The Notice of the AGM is sent to all shareholders at least 20 working days before the meeting. The directors' report on pages 40 to 43 summarises the main resolutions and the letter accompanying the AGM Notice includes details of the resolutions and explanatory notes thereon. Members of the Company unable to attend the meeting may elect to vote electronically or use the proxy form enclosed with the AGM Notice. In order to vote electronically, members should log on to Capita Registrar's website (www.capitashareportal.com) and follow the instructions on the screen. Crest members may send their proxy votes to the Company's registrars electronically.

At the AGM the number of proxy votes cast in favour, against and withheld in respect of each resolution will be disclosed and subsequently published on the Company's website. The Chairmen of the Audit, Remuneration and Nomination Committees will be present at the AGM to answer shareholders' questions.

Audit Committee and auditor
BTG has an established Audit Committee with the principal responsibilities of overseeing financial reporting and internal control matters and maintaining appropriate relations with the Company's auditor.

A report on the work of the Committee is set out on pages 52 to 55.

Appointments to the Board
The Company has a Nomination Committee with responsibilities that include reviewing the size and composition of the Board; making recommendations to the Board on the appointment of executive and non-executive directors; the re-appointment of non-executive directors when their three-year terms of appointment expire and for ensuring that succession planning is in place. The Committee also advises the Board on matters generally relating to Board appointments and meets as required but at least twice a year.

A report on the work of the Committee is set out on page 56.

Compliance with the provisions of the Combined Code
The Board considers that the Company complied in full with the principles set out in Section 1 of the Combined Code throughout the year ended 31 March 2011. Details of directors' remuneration, as required by the Combined Code and Schedule 8 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, is set out in the remuneration report on pages 57 to 68.

The Company's auditor, KPMG Audit Plc, is required to review whether this corporate governance statement reflects the Company's compliance with nine of the Code's provisions as specified in the Listing Rules of the FSA, relating to Accountability and Audit. Having conducted such a review KPMG is obliged to report if it considers this statement of corporate governance does not reflect such compliance. The Company confirms that no such report has been made.

John Brown
Chairman

24 May 2011

Audit Committee report
for the year ended 31 March 2011

The Audit Committee (the Committee) is comprised of independent non-executive directors and membership is detailed in the table below. The Chairman, Chief Executive Officer (CEO) and Chief Financial Officer (CFO) may attend meetings and provide input as required. The Company Secretary or his deputy serves as secretary to the Committee. Details of attendance at meetings are shown in the table on page 44.

Members	Committee member since
Giles Kerr (Committee Chairman)	6 November 2007
Colin Blakemore[a]	16 July 2008
Peter Chambré	1 November 2010
William Jenkins[b]	27 July 2005
Ian Much	1 November 2010

a Colin Blakemore resigned from the Committee and the Board on 13 July 2010.
b William Jenkins resigned from the Committee on 24 January 2011.

Giles Kerr is a Fellow of the Institute of Chartered Accountants and Director of Finance at Oxford University. He is considered by the Board to have the necessary significant recent and relevant financial experience to qualify him to be the chairman of the Committee. He receives additional remuneration to compensate him for his additional responsibilities, as set out on page 63. Other members bring substantial experience in the pharmaceutical and international business areas as well as financial expertise to the deliberations of the Committee. For further information, see the directors' biographies on pages 38 to 39.

The terms of reference of the Committee can be found on the Company's website or from the Company on request. These terms of reference have been updated during the year to reflect the recommendations of the FRC Guidance published in December 2010.

A summary of matters considered at the Committee since the last Annual Report and actions taken is shown below:

— Review of the Group's half year results to 30 September 2010 and full year results to 31 March 2011;
— Review of the reports from the external auditor on the interim and full year results to 31 March 2011;
— Consideration of accounting issues, changes in accounting standards and their impact on Group reporting, in particular relating to the acquisition of the Biocompatibles Group during the year;
— Review of the scope, nature, resource planning and fee estimate for the full year audit;
— Review of trading updates issued by the Group and amendments thereto;
— Assessment of the going concern basis;
— Review of revenue and cash management in the US sales third-party distribution arrangements;
— A review of IT security and controls;
— Review of risk management systems, internal controls and fraud procedures;
— Review of the Group's compliance systems and policies and the results of internal compliance monitoring and auditing;
— Review of the Group's whistle-blowing policy;
— Review of the impact of the UK Bribery Act on the operations of the Group and consideration of any amendments to Group policies to ensure compliance;
— Review of the disclosures relating to material risks in the business review;
— Assessment of the need for an internal audit function;
— Review of a new policy on non-audit work carried out by the Company's auditors;
— Considering a report of internal review work covering a review of controls at Group sites in the UK, US and Australia;
— Review of committee terms of reference; and
— Completion of an effectiveness review.

A key role of the Committee is to undertake detailed monitoring of the interim and annual financial statements. As part of this review it discusses the audit findings and auditor's report with management and the external auditor and considers significant judgements and issues contained in them, whether the financial statements comply fully with the relevant statutes and accounting standards and if they present a balanced assessment of the Company's financial position and prospects. Following this discussion the Chairman of the Committee reports the results of its review to the full Board. The external auditor usually meets with the non-executive directors in the absence of management at the time when the half and full year results are discussed.

The Board has overall responsibility for ensuring that the Group maintains an adequate system of internal control and risk management and for reviewing its effectiveness. The Committee on behalf of the Board undertakes the detailed monitoring of the controls and reports to the Board on its findings twice a year. The Committee has reviewed the system of internal controls including financial, operational, compliance and risk for the year under review and up to the date of approval of this Annual Report and Accounts. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The criteria applied by the directors in judging the effectiveness of these controls are that they allow the maximisation of shareholder value by exploiting business opportunities while ensuring that risks are properly identified and managed. The controls are regularly reviewed to ensure that they enable the proper management of business risks without so restricting efficiency and entrepreneurial nature that they inhibit proper running of the business.

The Committee has reviewed the effectiveness of the material controls of the Group, which are embedded within the day-to-day business. The Committee with the Board has an ongoing process for identifying, evaluating and managing significant risks faced by the Group. A reporting structure has been in place throughout the year and up to the date of approval of the financial statements and is regularly reviewed by the directors in accordance with the 2008 Combined Code on Corporate Governance.

The Group Risk Committee, chaired by the CFO and including staff from all sections of the business, reviews the risks throughout the business and identifies and evaluates risks which may impact on the Group's strategic and business objectives. The Risk Committee maintains a risk management plan that identifies the key risks. The plan is designed to assess the probability of those risks occurring, the impact should they occur, how such risks may be mitigated and monitored and the actions and individuals responsible for managing the risks. The Committee continues to monitor all areas of risk and the progress of actions designed to mitigate such risks; it reports its findings twice-yearly through the Audit Committee to the Board. The Audit Committee received the latest report at its May 2011 meeting, which included results of a review of the Biocompatibles Group following its acquisition in January 2011, and was satisfied with actions being taken to control and mitigate risks identified. The Group also has a Compliance Committee which is responsible for maintaining a complete compliance system to ensure that the Group is fully compliant with all applicable laws (including US Federal and State requirements) that relate to the commercial operations of the Group including the US sales and marketing team. The results are reported to the Audit Committee alongside the twice-yearly risk management report. For details of principal risks and uncertainties that may affect the business, see pages 25 to 29 in the business review.

The Audit Committee considered the process for internal audit compliance as part of its review. The process for compliance is included as part of the responsibilities of each local finance function. This process was changed during the year by an appointment to the Head Office finance team of a senior accountant, with considerable experience of internal audit and compliance work, who has been tasked to visit all sites to ensure compliance with all internal controls and authorities. During the year the Group's offices in the UK, US and Australia were visited and every site will be visited at least annually in order to ensure high standards of compliance are maintained. The Committee noted that the internal audit work did not identify any material weaknesses in internal control but approved proposals to enhance control procedures.

The Committee reviews the effectiveness of internal controls and risk management systems. The Company currently has no dedicated internal audit function and the Committee reviews on an annual basis as to whether this is still appropriate. The Committee considered, taking account of the increasing size and complexity of the organisation, particularly following the recent acquisition of the Biocompatibles Group, that it was now time for the Company to employ a dedicated internal auditor. A search for a suitable candidate to fill this role is currently underway.

The Committee is responsible for ensuring that arrangements under which employees may, in confidence, raise concerns about possible improprieties in matters of financial performance or other matters are operating effectively and that appropriate follow-up action takes place. Included within the new Code of Conduct are details of the Group's whistle-blowing policy and there are posters and pamphlets prominently displayed at each site giving details of what employees should do if they have concerns regarding any aspect of the business. Employees are encouraged to report any concerns without fear of recrimination and an independent telephone line is available should staff wish to use it. These arrangements were reviewed by the Committee during the year.

The Committee reviews the overall performance of the auditor annually and approves its terms of engagement and remuneration. The Committee discussed the auditor's proposed work plan prior to the commencement of the audit of the results for the year to 31 March 2011 and also reviews the non-audit work carried out by the Company's auditor, KPMG Audit Plc (KPMG), to ensure that such services do not impair its independence or objectivity.

The Committee approved a new process for deciding whether the auditor may be employed for non-audit work detailing areas where the auditor may not be used, areas where it may be used subject to the agreement of the Committee and areas where prior approval is not required. Areas where prior approval is not required include audit-related services as specified in the APB Ethical Standards for Auditors and other services, routine in nature, where the fee is not significant in the context of the audit fee and where the conduct of such services will not adversely impact auditor independence or objectivity. The Committee may set a threshold for the annual expenditure for each type of work and will receive a written annual report describing the fees paid to the auditor for non-audit work and whether such services were pre-approved or specifically approved by the Committee.

The auditor is appointed by the shareholders at the AGM to ensure its independence. The Committee regularly discusses the independence of the auditor and whether there should be a need to rotate audit firms. Given the relative size of the Company to that of KPMG and that the lead audit partner is changed on a regular basis (at least every five years), the Committee is presently satisfied that KPMG is independent in its reporting on the audit of the Group and rotation of firms is not necessary. The current lead audit partner took over the audit as from the year ended 31 March 2009.

Fees paid to KPMG included £439,000 in relation to non-audit work (see note 9 on page 94 for an analysis). The Committee believes that the use of KPMG was appropriate and efficient in the circumstances and that independence was preserved as a partner other than the audit partner was responsible for the work and the fees paid were insignificant in the context of the size of KPMG as a whole.

As part of corporate governance, the Committee also carried out a review of its effectiveness and reported the results and its recommendations for improvement to the Board.

Giles Kerr
Chairman of the Audit Committee

Nomination Committee report for the year ended 31 March 2011

The Nomination Committee (the Committee) is comprised of independent non-executive directors; membership of the Committee is detailed in the table below. The Company Secretary or his deputy serves as secretary to the Committee. Details of attendance at meetings are shown in the table on page 44.

Members	Committee member since
John Brown (Committee Chairman)	17 March 2008
Peter Chambré	22 May 2007
Giles Kerr	16 July 2008
James O'Shea	13 May 2009

The Committee terms of reference, which were updated during the year, can be found on the Company's website or from the Company on request.

The Committee has continued its review of Board membership to ensure it has the right balance of experience and expertise as the business develops and it is Company policy to refresh Board membership on a regular basis.

The Committee employs external consultants to assist it in making appointments. Prior to any appointments being made, the Committee prepares a full description of the role, desired skills and capabilities required for the appointment. It interviews candidates and produces a shortlist for subsequent interview by all Board members.

During the year the Committee considered the re-appointment of William Jenkins and Giles Kerr as non-executive directors, whose three-year contracts were due for renewal. It was agreed that Giles Kerr would be re-appointed for a second three-year period but that William Jenkins, having served since 2002, would be re-appointed for a period of up to a year. It was anticipated that William Jenkins would retire from the Board once a new non-executive director had been found who offered the detailed research and development experience that he provided.

Following the departure of Colin Blakemore, who retired from the Board at the time of the AGM on 13 July 2010, having served since 2007, and the completion of the latest review of the constitution and skills of the Board, the Committee commenced a search for new Board members. Following an extensive search and interview process the Committee recommended to the Board that Ian Much be appointed to the Board and he joined on 1 August 2010. The Committee then commenced a further search to find a suitably qualified replacement for William Jenkins, and Melanie Lee was appointed on 29 November 2010. Following her appointment, William Jenkins retired from the Board on 4 February 2011. Further details on the new Board members may be found in the directors' biography section on pages 38 and 39.

Following the appointment of new non-executive directors, the Committee ensures that they receive a full induction programme. As part of the induction process the new director is given a full briefing on the financial history of the Company and details of operating plans, budgets and forecasts for future years. Arrangements are also made for the new director to meet with the heads of the various business units for an in-depth briefing on the areas in which the Company is involved. A briefing on corporate governance and directors' responsibilities may also be given and the opportunity to attend external courses is also available.

The Committee reviews succession plans and plans for emergency cover of key managers and directors on a regular basis.

As part of corporate governance, the Committee also carried out a review of its effectiveness and reported the results and its recommendations for improvement to the Board.

John Brown
Chairman of the Nomination Committee

Introduction and compliance

This report has been prepared by the Remuneration Committee on behalf of the Board in accordance with the requirements of the Schedule 8 to the Large- and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations), and explains how the Company has applied the principles of the Combined Code in respect of directors' remuneration. In accordance with the Regulations the following sections of this report have been subject to audit: directors' emoluments, shareholdings, share awards, long-term incentive schemes and pensions.

In accordance with the Regulations, a resolution inviting shareholders to approve the report will be put to the Annual General Meeting (AGM) on 20 July 2011.

Remuneration Committee

The Remuneration Committee (the Committee) has been established by the Board which has responsibility for executive remuneration. The Committee is comprised of independent non-executive directors; membership of the Committee is detailed in the table below. Details of attendance at meetings are shown in the table on page 44. The Chairman, Chief Executive Officer (CEO) and Chief Financial Officer (CFO) may attend meetings by invitation, other than where their own remuneration is being considered, and provide input as required. The Company Secretary or his deputy serves as secretary to the Committee.

Members	Committee member since
Ian Much (Committee Chairman)[a]	28 September 2010
William Jenkins[b]	16 July 2008
Colin Blakemore[c]	16 July 2008
Peter Chambré	26 September 2006
Giles Kerr	3 November 2009
Melanie Lee	23 March 2011
James O'Shea	13 May 2009

a Ian Much took over as Chairman of the Committee on 24 January 2011.
b William Jenkins resigned as Chairman and Committee member on 24 January 2011.
c Colin Blakemore resigned from the Committee and the Board on 13 July 2010.

The Committee's full terms of reference were revised in November 2010 in the light of recent best practice and corporate governance developments. They are available on the Company's website or from the Company on request and are summarised below:

— To make recommendations to, and determine on behalf of the Board, remuneration packages for the executive directors in accordance with current best practice;
— To give advice and make recommendations on the framework and broad policy for all aspects of the remuneration of senior management and on the overall policy for total compensation for all other employees; and
— To determine policy and advise on equity participation schemes, employee share trust matters, pensions and other benefits.

Consultants to the Committee

The Committee has authority to appoint such advisers as it sees fit. Hewitt New Bridge Street (a brand of Aon Hewitt Limited, part of Aon Corporation Inc (HNBS)) acts as adviser to the Committee and a representative usually attends Committee meetings. HNBS advises the Committee on all remuneration issues including the vesting of long-term incentive arrangements. During the year PricewaterhouseCoopers provided information and advice on pension issues and share awards.

The Group continues to use HNBS to advise on other matters including remuneration matters in general. The firm also assists with the total shareholder return (TSR) performance measurement and the implementation of employee share schemes and, through its Radford brand, provides the Group with advice on matters specific to the US employment market. The Group also uses Mercer Ltd and PricewaterhouseCoopers to advise on remuneration issues, particularly in relation to pension schemes.

Matters considered by the Committee

A summary of the main matters considered at the Committee meetings since the date of the last Annual Report and actions taken is as follows:

— Benchmarking the remuneration of the Executive Directors with assistance from HNBS;
— Following this exercise, consideration of executive director remuneration and long-term incentive awards for 2011/12 including setting parameters for achievement of bonus and share incentive awards;
— Assessing Group performance against various criteria for annual bonuses and long-term incentive schemes in respect of the year to 31 March 2011;
— Approval of awards under the Company's long-term incentives and all-employee share plans;
— Proposed the inclusion of a clause in the various share plan agreements to permit the claw back of awards where appropriate, to be in place in advance of any future share awards to be made under the various plans;
— Reviewing the overall level of employee salary increases to be applied from 1 June 2011, reviewing the structure and setting the parameters and objectives for the 2011/12 bonus and share incentive awards for employees;
— Reviewing the impact of new pension legislation and considering any changes for directors and other employees affected;
— Approval of a share trading plan for the executive directors;
— Approval of the remuneration report; and
— Review of Committee and adviser effectiveness.

Remuneration policy

The policy for remuneration for executive directors is to enable the Company to offer a package of rewards that:

— Is sufficiently competitive to enable the Company to attract and retain the management talent it needs to ensure BTG is successful;
— Supports the achievement of the Company's strategy by delivering the potential to receive significant rewards linked to the long-term performance of the Company;
— Provides executives with alignment with shareholders and helps to retain them by delivering a significant element of remuneration in shares; and
— Is flexible enough to cope with the Company's changing needs as it grows and the strategy evolves.

Performance-related remuneration is in the form of an annual bonus, part of which is awarded in shares, deferred for three years. Share options and performance shares are awarded to directors and may also be awarded to Leadership Team members and certain other senior members of staff. Performance-related remuneration forms a significant proportion of the total executive directors' remuneration and is subject to demanding performance conditions. The intention is that approximately 50% of executive directors' remuneration should be fixed and 50% variable.

The balance of fixed and variable remuneration is illustrated below for the two executive directors. The table is a theoretical model showing the on-target value of annual bonus and the fair value of PSP and ESOP awards (assuming PSP awards have a fair value of 55% of salary and ESOP awards have a fair value of 20% of salary):

	Fixed remuneration % total	Annual bonus % total	Long-term incentives % total
Louise Makin	49%	20%	31%
Rolf Soderstrom	49%	20%	31%

The Committee believes that the bonus opportunity, partly paid in deferred shares with forfeiture provisions, together with other elements of the long-term incentive plans, provides a balanced market-competitive package for the executive team. However, the Committee keeps such targets under regular review in order to ensure they remain appropriate.

The Committee continues to believe that:
- The overall remuneration package must be market-competitive;
- Short- and long-term variable pay should be the most significant proportion of overall remuneration with a greater emphasis on long-term rather than short-term remuneration;
- Significant rewards should be available for delivering the Group's short- and long-term objectives and achieving sector-leading returns for shareholders;
- The structure of the remuneration package should continue to provide significant 'lock-in' for the executive team; and
- Executive directors should be required to build significant shareholdings of 100% of base salary in the Company to increase alignment with shareholders.

Remuneration levels for the executive directors are reviewed annually with assistance from HNBS who provide data on levels of remuneration among two comparator groups as well as on level of salary increases in the wider economy. The two comparator groups used comprise a general industry group of companies selected on the basis of market capitalisation and a sector group of companies within the pharmaceutical and biotechnology sectors.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance (ESG) risks by inadvertently motivating irresponsible behaviour. More generally, the Committee will ensure that the overall remuneration policy does not encourage inappropriate operational risk-taking.

Components of the remuneration package

Base salary: Base salary is reviewed annually taking account of the incumbent's responsibilities, the performance of the individual and market data from independent sources. As part of their consideration, the Committee reviews information from management on planned salary changes and bonus levels for the rest of the Group.

The Committee does not aim to target a precise statistical point when setting salaries for executive directors; rather it aims to position salaries at a broadly mid-market level having regard to the factors above. For 2011 the Committee, having taken advice from HNBS, determined the following salary increases:

	As from 1 April 2010 £	Percentage increase %	As from 1 April 2011 £
Louise Makin	436,452	5	458,275
Rolf Soderstrom	283,694	5	297,879

These increases are broadly in line with the level of increases awarded in the rest of the Group, which were generally in the range of 3–5%.

Benefits and pension: Benefits mainly comprise the provision of medical benefits and permanent health insurance.

Louise Makin is a member of the Group defined benefit pension plan which provides for a pension based on the level of pension contributions by the member and length of service (see page 64 of this report and note 29 on pages 110 to 113 for further information). She also has a separate defined contribution Executive Pension Plan to which the Company makes contributions. Rolf Soderstrom is a member of the Protherics defined contribution pension plan.

Annual bonuses: The Company operates an annual bonus incentive scheme in which all members of staff, including executive directors participate. The intention of this bonus is to link incentives more closely to Group performance over the short to medium term. Bonuses are calculated based on personal and business performance. For the year ended 31 March 2011 bonuses were subject to a maximum of 100% of base salary for executive directors and up to 75% for other staff. Half of the bonus earned by the executive directors and a smaller percentage for certain senior staff is deferred under the Company's Deferred Share Bonus Plan (DSBP) into a conditional award over shares, to be held for three years. Other than in 'good leaver' circumstances these will normally be subject to forfeiture on a time-pro-rated basis should they leave the Company during the deferral period.

Bonus targets were set at the start of the financial year for both Louise Makin and Rolf Soderstrom based on the achievement of certain objectives. These included the achievement of targets for a trading profit measure (up to 37.5% of potential bonus), cash generation (37.5%) and growth (25%) in the business. For the first two categories the Committee defined threshold, target and stretch levels. In judging performance against against the growth measure, the Committee takes account of progress in a number of areas of the business. The level of bonus payable is dependent on the degree to which each target is exceeded. The trading profit measure, used for both bonuses and long-term incentives, is a normalised measure relating to earnings before amortisation of intangibles, restructuring and acquisition costs, fair value adjustments on foreign exchange forward contracts, intercompany loans and movements in derivatives.

The target level of performance for operating cash and trading profit was the achievement of budget. Threshold and stretch were £6.2m and £10.8m either side of budget for cash and £6.2m and £10.8m either side of budget for trading profit. Payout between the various performance levels being calculated on a straight-line basis. The on-target and maximum level of bonus payable are 50% and 100% of base salary, respectively.

The Committee agreed that it would be inappropriate to include the results of Biocompatibles in calculations to assess the achievement against bonus targets for the year. The Company achieved operating cash outflow of £28.9m, after adjusting for acquisition and restructuring payments, and trading profit of £3.0m, both being between the target and stretch performance levels. Trading profit is calculated as loss before tax (£7.9m), amortisation of intangibles (£8.2m), restructuring and acquisition costs (£3.8m) less the fair value of foreign exchange forward contracts, derivatives and intercompany loans (£1.1m).

Following a review of performance against targets, the Committee determined that the following bonuses be payable for the period:

Director	Percentage bonus payable %	Bonus payable in cash £	Bonus payable in deferred shares under the DSBP £	Total value of bonus £
Louise Makin	70	152,758	152,758	305,516
Rolf Soderstrom	70	99,293	99,293	198,586

The Committee has set business performance objectives for the executive directors for 2011/12 which focus on trading profit, operating cash and individual KPIs. There are threshold, target and stretch levels of financial performance for trading profit and cash. The Committee uses its judgement in assessing performance against individual KPIs. No bonus is payable unless a profit threshold is achieved. The maximum level of bonus payable is 100% of base salary.

Long-term incentive arrangements: Executive directors and senior managers, together with all other employees, are eligible to participate in the Company's share schemes as operated from time to time.

The Company currently operates the Performance Share Plan 2006 (PSP) and the Executive Share Option Plan 2009 (ESOP). The Committee's current policy is that executive directors should receive annual awards under both plans as this:

— Places significant weight on longer-term performance given the strategy to transition the business from an R&D-focused biotech company to an earnings-driven specialist healthcare company; and
— Ensures that packages for the executive directors include a strong emphasis on the absolute growth in shareholder value (by the use of share option grants).

Performance share plan

Recipients of awards under the PSP are entitled to receive annual awards of shares with a face value of up to 100% of base salary.

The awards made in 2010/11 have performance conditions based on a combination of a trading profit target (as described on page 60) and total shareholder return (TSR) measured over three financial years. The Company's TSR is compared with that of a peer group comprising FTSE 250 companies excluding investment trusts, companies in the financial services sector (banking, insurance, broking, fund management etc.) and companies in the consumer discretionary sector (non-food retail, media, leisure, gambling) with opening and closing TSR values averaged over three months prior to the start and end of the performance period.

Trading profit targets for the awards made during 2010/11 were based on cumulative targets measured over a three-year period with a range of performance levels between threshold and stretch. Trading profit will be measured on a normalised basis over the three-year period in the range £24m to £60m.

The Committee intends to make awards for 2011/12 to both executive directors equal to 100% of salary. The Committee intends to set performance conditions for the awards that will be a combination of the same TSR and trading profit measures as used in 2010/11. Details of the conditions will be disclosed in next year's report.

Executive share option plan

The Company operates a share option plan under which grants of options may be made to executive directors and other employees at the invitation of the Committee. Participants may be granted awards of options, the vesting of which will normally be dependent upon performance conditions measured over a period of not less than three years. Awards will typically be limited to 100% of base salary, although, in exceptional circumstances, there will be an individual limit on each award of 150% of base salary. Performance conditions for awards made in 2010/11 were the same as for the PSP awards described above.

The Committee has agreed to make awards for 2011/12 of 100% of base salary to Louise Makin and Rolf Soderstrom under the ESOP. These will be subject to the same performance conditions as for the 2011/12 PSP awards.

Other plans
The Company operates an HMRC-approved save-as-you-earn scheme, open to all eligible employees (including executive directors) who open an approved savings contract, to enable them to purchase shares in the Company. The options are exercisable after three years at a price not less than 80% of the market value of the shares at the date of grant. The Scheme provides an international section to allow for the participation of European and Australian employees.

The Company also provides a US Internal Revenue Service s423 Plan for its US employees and a restricted share scheme in order to award nil paid shares to employees below Board level.

External appointments
The Board believes that it may be beneficial to the Company for executives to hold non-executive directorships outside the Group. Any such appointments are subject to approval by the Board and the director may retain any fees payable. Louise Makin received fees from her position at Premier Foods plc of £67,500 during the year to 31 March 2011 (2010: £61,375). Rolf Soderstrom does not currently hold any outside directorships.

Service contracts
The Company's policy on directors' service contracts is that, in line with the best practice provisions of the Code, they should be terminable by the Company on a maximum of one year's notice and contracts do not provide for pre-determined compensation in the event of termination or provision for enhanced payments in the event of a takeover of the Company. The Company may terminate the contracts of the executive directors with immediate effect by making a payment in lieu of notice. Any payments made would be determined by reference to normal contractual principles with mitigation being applied wherever relevant or appropriate. The directors' contracts do not provide for an automatic entitlement to bonus or share awards.

The non-executive directors do not have service contracts, but have letters of appointment for an initial period of three years, which may be renewed by mutual agreement, normally for a further three-year term. The terms of appointment provide for a notice period in the event of early termination of six months for the Chairman and three months for other non-executive directors, other than if they are not re-elected at an AGM.

Details of contracts and letters of appointment, for directors serving at the date of this report, are as set out below.

	Date of appointment	Notice period	Date of expiry of current contract
Executive			
Louise Makin	19 October 2004	12 months	N/A
Rolf Soderstrom	4 December 2008	12 months	N/A
Non-executive			
John Brown	1 January 2008	6 months	31 December 2013
Peter Chambré	26 September 2006	3 months	25 September 2012
Giles Kerr	1 October 2007	3 months	30 September 2013
Melanie Lee	29 November 2010	3 months	28 November 2013
Ian Much	1 August 2010	3 months	31 July 2013
James O'Shea	2 April 2009	3 months	1 April 2012

Non-executive directors' fees
The Chairman, in consultation with the executive directors, is responsible for proposing changes to the non-executive directors' fees. The Senior Independent Director, in consultation with the executive directors, is responsible for proposing changes to the Chairman's fees. In each case this follows advice on appropriate fee levels supplied by HNBS. In proposing such fees, account is also taken of the time commitments of BTG's non-executives. The decision on fee changes is taken by the Board as a whole. Individual

non-executive directors do not take part in discussions on their remuneration. Non-executive directors do not receive benefits or pension contributions from the Group and do not participate in any Group incentive scheme.

Following a detailed review and advice from HNBS, the Board agreed to increase the Chairman's salary by 15% and other non-executive directors by 3%, other fees to remain unchanged.

Set out in the table below are the fees paid for the year ended 31 March 2011 and proposed fees for the year ended 31 March 2012:

Director	As from 1 April 2011 £	Year ended 31 March 2011 £
Chairman	**115,000**	**100,008**
Non-executive director	**38,110**	**37,000**
Senior Independent Director	**3,000**	**3,000**
Audit Committee chairmanship	**6,000**	**6,000**
Remuneration Committee chairmanship	**6,000**	**6,000**

Directors' emoluments

The amounts below represent emoluments earned as directors during the relevant financial year:

	Salary/ fees £'000	Bonus[1] £'000	Cash allowance in lieu of pension[2] £'000	Benefits £'000	**2011 Total emoluments £'000**	2010 Total emoluments £'000	**2011 DC pension contributions £'000**	2010 DC pension contributions £'000
Executive directors								
Louise Makin[3]	436	306	21	2	**765**	753	**42**	59
Rolf Soderstrom[4]	284	199	–	1	**484**	466	**57**	52
Non-executive directors								
John Brown	100	–	–	–	**100**	90	**–**	–
Peter Chambré	37	–	–	–	**37**	35	**–**	–
Giles Kerr	46	–	–	–	**46**	41	**–**	–
Melanie Lee[5]	13	–	–	–	**13**	–	**–**	–
Ian Much[6]	26	–	–	–	**26**	–	**–**	–
James O'Shea	37	–	–	–	**37**	35	**–**	–
Ex-directors								
Colin Blakemore[7]	18	–	–	–	**18**	35	**–**	–
William Jenkins[8]	43	–	–	–	**43**	38	**–**	–
	1,040	505	21	3	**1,569**	1,493	**99**	111

1 Of the bonus shown above, the following amounts will be deferred into shares in accordance with the DSBP rules. Louise Makin £152,758 (2010: £165,347), Rolf Soderstrom £99,293 (2010: £102,440).
2 The cash allowance represents a supplement in lieu of employer pension contributions following the changes to pension legislation
3 Pension contributions shown for Louise Makin represent amounts paid to an Executive Pension Plan for her benefit.
4 Pension contributions shown for Rolf Soderstrom represent amounts paid to a defined contribution pension scheme for his benefit.
5 Fees were paid to Melanie Lee from the date of her appointment to the Board on 29 November 2010.
6 Fees were paid to Ian Much from the date of his appointment to the Board on 1 August 2010. He received an additional fee following his appointment as Chairman of the Remuneration Committee.
7 Fees were paid to Colin Blakemore for the period to his retirement from the Board on 13 July 2010.
8 Fees were paid to William Jenkins for the period to his retirement from the Board on 4 February 2011.
9 All directors' fees, salaries and bonuses are subject to UK income tax.
10 During the year an administrative error was found in respect of payments made under the defined benefit pension fund to Rusi Kathoke, a former director. Following negotiations, there was an overpayment of benefits of £11,705 in the year. The additional payments, which will be at a lower level in subsequent years, will cease when he attains 65 years in December 2012. The additional payments are covered by contributions to the fund by the Company.

Benefits shown above for Louise Makin and Rolf Soderstrom relate principally to the provision of life assurance and medical benefits.

Louise Makin is a member of the BTG Pension Fund. The Fund is a contracted-out defined benefit arrangement which provides a pension based on an accrual rate of either one-sixtieth or one-eightieth of basic salary (up to the earnings cap), depending on the level of contributions paid by members of 7% or 5% respectively. Members are able to retire at any time from age 60 onwards and under current legislation, if members continue to work beyond age 60, they may continue to pay contributions and enhance their pension entitlement, subject to a maximum of 40 years pensionable service. Pension payments post retirement are increased annually by inflation for pensionable service earned up to 5 April 2006 and inflation subject to a ceiling of 2.5% for pensionable service earned after that date. Members may take early retirement, once they have achieved 55 years of age, although any pension paid will be subject to an actuarial reduction. Ill-health retirements may be permitted from an earlier age subject to meeting certain medical conditions. In the event of the death of a member, the Fund provides for a spouse's pension to be payable equal to two-thirds of the deceased member's pension. For current active members, a lump sum death benefit equal to four times basic salary (up to the earnings cap) is payable plus a refund of the member's contributions.

During the year Louise Makin, aged 50, contributed £8,652 (2010: £8,652) to the fund, representing 7% of her salary up to the Earnings Cap and the Company contributed £21,136 (2010: £21,136). In addition, she made pension contributions to a separate defined contribution Executive Pension Scheme to which the Company contributed £41,713 during the year (2010: £59,213).

Following a review of the impact of changes to pension legislation, changes were made to the level of employer contributions to Louise Makin's defined contribution scheme. A cash allowance was made to her to compensate her for reduced employer pension contributions made during the year, previously 20% of base salary above the earnings cap. See the table on page 63 for further information.

Rolf Soderstrom is a member of the Protherics defined contribution pension scheme to which the Company contributed 20% of base salary. The Company paid contributions of £56,739 to the pension scheme for his benefit (2010: £51,995). As a result of changes to pension legislation, a cash allowance will be paid to him in 2012 to compensate him for reduced employer pension contributions.

Details of the value of Louise Makin's individual pension entitlement in the defined benefit BTG Pension Fund, as required under the Listing Rules and the Regulations, are shown below:

	Directors' remuneration report regulations					Listing requirements	
	Accrued pension at 31 March 2011[1] £	Increase in accrued pension during year ended 31 March 2011 (including inflation)[2] £	Transfer value of accrued benefits at 31 March 2011 £	Transfer value of accrued benefits at 31 March 2010 £	Increase in transfer value less director's contributions[3] £	Increase in accrued pension during year ended 31 March 2011 (excluding RPI inflation) £	Transfer value of the increase in accrued pension (excluding RPI inflation) at 31 March 2011 less director's contributions £
Louise Makin	**13,004pa**	**2,351pa**	**207,968**	159,381	**39,935**	**1,861pa**	**19,448**

1 The accrued pension at 31 March 2011 is the leaving service benefit to which Louise Makin would have been entitled to if she had left the BTG Pension Fund at that date.
2 This equals the accrued pension as at 31st March 2011 less the equivalent pension as at 31st March 2010 disclosed in the 2010 Annual Report.
3 This is the transfer value as at 31 March 2011 less the transfer value as at 31 March 2010 less the contributions paid by the director in the year.

Directors' share awards

The directors have the following interests in BTG plc shares under the Company's various share plans. Full details of their holdings at the start and end of the financial year and at 24 May 2011 are set out below.

Louise Makin

Date of grant	Exercise price (p) on date of grant (p)	At 1 April 2010	Granted in year	Exercised	Lapsed	**At 31 March 2011**	Exercise period	Share price on exercise (p)
Share option grants								
11 Nov 2004	92.00	32,608	–	–	–	**32,608**	11 Nov 2007 to 10 Nov 2014	
31 Jul 2009	179.25	233,974	–	–	–	**233,974**	31 Jul 2012 to 30 Jul 2019	
13 Jul 2010	201.30	–	216,816	–	–	**216,816**	13 Jul 2013 to 12 Jul 2017	
Sharesave grants								
30 Jul 2007	93.74	4,032	–	4,032	–	**–**	1 Sep 2010 to 28 Feb 2011	200.80
15 Jul 2008	129.20	1,455	–	–	–	**1,455**	1 Sep 2011 to 28 Feb 2012	
2 Sep 2009	146.70	2,474	–	–	–	**2,474**	1 Oct 2012 to 31 Mar 2013	
6 Jul 2010	146.67	–	2,454	–	–	**2,454**	1 Sep 2013 to 1 Mar 2014	

Date of award	Market price on date of award (p)	At 1 April 2010	Granted in year	Exercised	Lapsed	**At 31 March 2011**	Vesting date	Share price on vesting (p)
Performance share awards								
15 Jun 2007	123.25	285,975	–	284,734	1,241	**–**	15 Jun 2010	188.46
28 May 2008[1]	121.25	316,824	–	–	–	**316,824**	28 May 2011	
22 Jul 2009	174.00	246,633	–	–	–	**246,633**	22 Jul 2012	
13 Jul 2010	201.30	–	218,751	–	–	**218,751**	13 Jul 2013	
Deferred share awards								
15 Jun 2007[2]	123.25	98,991	–	98,991	–	**–**	15 Jun 2010	178.30
28 May 2008	121.25	85,185	–	–	–	**85,185**	28 May 2011	
22 Jul 2009	174.00	105,808	–	–	–	**105,808**	22 Jul 2012	
13 Jul 2010	201.30	–	98,386	–	–	**98,386**	13 Jul 2013	
Total awards						**1,561,368**		

Notes:

1 PSP awards made prior to March 2009 are subject to cumulative pre-tax profit and relative TSR performance conditions with each determining the vesting of 50% of an award. Following advice from HNBS on the TSR performance and the measurement of the performance against the profit measure, the Committee approved the release of 281,973 shares to Louise Makin under the 2008 PSP award, the balance of 34,851 shares will lapse. The shares are due to vest on 28 May 2011.

2 On 1 April 2010 the Committee approved the vesting of this award and its conversion into a cash award on that date. The value, net of deductions for income tax and national insurance, was deposited with the Group's Guernsey Trust, to be held on behalf of Louise Makin until the normal vesting date of 15 June 2010. The cash was released and the net sum was used to purchase 55,149 shares at a share price of 186.95p.

3 The aggregate gain on the exercise of sharesave options in the year was £4,317.

Rolf Soderstrom

Date of grant	Exercise price (p) on date of grant (p)	At 1 April 2010	Granted in year	Exercised	Lapsed	**At 31 March 2011**	Exercise period
Share option grants							
31 Jul 2009	179.25	145,048	–	–	–	**145,048**	31 Jul 2012 to 30 Jul 2019
13 Jul 2010	201.30	–	140,930	–	–	**140,930**	13 Jul 2013 to 12 Jul 2020

Date of award	Market price on date of award (p)	At 1 April 2010	Granted in year	Exercised	Lapsed	**At 31 March 2011**	Vesting date
Performance share awards							
22 Jul 2009	174.00	152,896	–	–	–	**152,896**	22 Jul 2012
13 Jul 2010	201.30	–	142,188	–	–	**142,188**	13 Jul 2013
Special award under LR9.4.2 R[1,2]							
22 Jul 2009	174.00	76,448	–	–	–	**76,448**	22 Jul 2011
Deferred share awards							
22 Jul 2009	174.00	45,476	–	–	–	**45,476**	22 Jul 2012
13 Jul 2010	201.30	–	60,954	–	–	**60,954**	13 Jul 2013
Total awards						**763,940**	

1 The performance conditions attached to this award are substantially the same as those that apply to the 2009/10 PSP awards save that performance is measured over two financial years from the start of the financial year in which the award was made and the cumulative EBITDA (profit before tax add back depreciation and amortisation, less net interest) targets were set to take account of the shorter performance period. The EBITDA performance targets were based on cumulative EBITDA measured over a two-year period with a range of performance levels between threshold and stretch. EBITDA will be measured on a normalised basis over the two-year period in the range £24m to £41m.

2 Following advice from HNBS on the TSR performance and the measurement of the performance against the profit measure, the Committee approved the release of 22,934 shares to Rolf Soderstrom under the special award, the balance of 53,514 shares will lapse. The shares are due to vest on 22 July 2011.

Share options and performance shares were granted for nil consideration. The awards are subject to the performance conditions as set out on page 61. Sharesave options were granted on the condition that participants agree to enter into a monthly savings contract.

The price used for calculating the number of shares awarded under the PSP and DSBP was based on average of the closing share prices over the five days immediately prior to the award date. Share options are awarded using the closing mid-market price on the date prior to the date of grant.

Awards are normally satisfied using new issue shares. BTG's share plans comply with recommended guidelines on dilution limits and the Company has always operated within these limits. Assuming none of the extant options lapse and will be exercised and, having included all exercised options, the Company has utilised 3.0% of the 10% in ten years and 2.8% of the 5% in ten years in accordance with the Association of British Insurers (ABI) guidance on dilution limits.

The Committee, with advice from HNBS, is responsible for assessing whether the relevant performance conditions have been achieved.

Directors' shareholdings

The directors' beneficial interests, including interests of connected persons, in the shares of the Company at the end of the financial year and at 24 May 2011 are shown below. None of the directors had any non-beneficial interest at any time in the period 1 April 2009 to 24 May 2011. None of the directors who held office at the end of the financial period had any beneficial interest in the shares of other Group companies.

	Interest at 31 March 2011 ordinary shares 10p	Interest at 31 March 2010 ordinary shares 10p
John Brown	**6,547**	6,547
Louise Makin	**376,853**	178,883
Rolf Soderstrom	**79,857**	79,857
Peter Chambré	**3,000**	3,000

The executive directors have a beneficial interest in ordinary shares of the Company by direct holdings and by virtue of their entitlements in the Company's employee share plans. As employees of the Group, all executive directors also have an interest in any unallocated shares held on behalf of all employees in the BTG Employee Share Trust, which at 31 March 2011 amounted to 718,158 ordinary shares in the Company. The non-executive directors are not entitled to participate in any of the Company's employee share plans.

Alignment with shareholders

The Committee operates shareholding guidelines requiring executives to build and maintain a holding of Company shares worth at least 100% of salary.

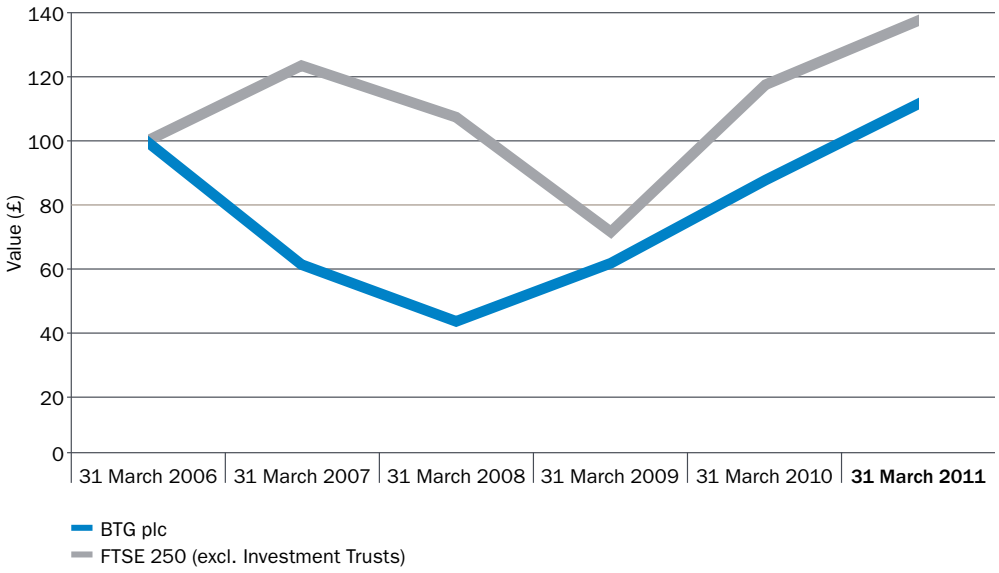
Based on the shares and share options and awards held at 31 March 2011 (assuming full vesting and having taken account of any relevant exercise costs), the following table illustrates the value each executive director has at risk and how this has fluctuated during the year, using the lowest, highest and closing share prices for the year for illustrative purposes.

Executive director	Type of holding	Number	Lowest 150.0p £'000	Highest 270.8p £'000	Closing 227.6p £'000
Louise Makin	Shareholding	376,853	565	1,021	858
	Options/awards	1,561,368	1,627	3,333	2,658
		1,938,221	2,192	4,354	3,516
Rolf Soderstrom	Shareholding	79,857	120	216	182
	Options/awards	763,940	717	1,525	1,195
		843,797	837	1,741	1,377

The Committee has introduced a formal trading plan to enable the executive directors to sell shares from their holdings from time-to-time. Provided that executive directors have achieved and continue to maintain the minimum level of holding required under the shareholding guidelines of 100% of basic salary, executive directors will be permitted to sell shares in addition to those required to meet their tax liabilities within a six-week period from the announcement of the Company's results for any period.

Total shareholder return

The performance of the Company's ordinary shares compared with the FTSE 250 (excluding Investment Trusts) (the Index) for the five-year period ended on 31 March 2011 is shown in the graph below.



Source: Thomson Reuters

This graph shows the value at 31 March 2011 of £100 invested in BTG plc on 31 March 2006 compared with £100 invested in the Index. The other points plotted are the values at intervening financial year-ends.

The Company has chosen the Index as a comparator as it believes that it gives shareholders a reasonable comparison with the total shareholder return (TSR) of other equity investments in companies of a broadly similar size across all sectors. The TSR performance has been measured by HNBS.

The middle-market price of an ordinary share on 31 March 2011 was 227.6p. During the year the share price ranged from a low of 150.0p to a high of 270.8p.

Directors' interests in contracts

Except as described in note 36 to the financial statements, 'Related party transactions', no director or connected person had any material interest in any contract of significance in relation to the Group's business with a third-party either during or at the end of the financial year.

This report was approved by the Board on 24 May 2011 and signed on its behalf by

Ian Much
Chairman of the Remuneration Committee

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and Accounts and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to DTR4

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Dr Louise Makin
Chief Executive Officer

Rolf Soderstrom
Chief Financial Officer

24 May 2011

Independent auditor's report to the members of BTG plc

We have audited the financial statements of BTG plc for the year ended 31 March 2011 set out on pages 74 to 134. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 69, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2011 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006;
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- Information given in the Corporate Governance Statement set out on pages 44 to 51 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 42, in relation to going concern;
- The part of the Corporate Governance Statement on page 51 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- Certain elements of the report to shareholders by the Board on directors' remuneration.

David Bills
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

24 May 2011

Financials

72
The financial statements and accompanying notes.

Financials

Consolidated income statement

	Note	Year ended 31 March 2011 Results before acquisition adjustments and reorganisation costs £m	Year ended 31 March 2011 Acquisition adjustments and reorganisation costs £m	Year ended 31 March 2011 Total £m	Year ended 31 March 2010 Results before acquisition adjustments and reorganisation costs £m	Year ended 31 March 2010 Acquisition adjustments and reorganisation costs £m	Year ended 31 March 2010 Total £m
Revenue							
Existing operations		**105.4**	**–**	**105.4**	98.5	–	98.5
Acquisitions		**6.0**	**–**	**6.0**	–	–	–
	4	**111.4**	**–**	**111.4**	98.5	–	98.5
Cost of sales		**(32.4)**	**(1.7)**	**(34.1)**	(32.5)	(0.3)	(32.8)
Gross profit	4	**79.0**	**(1.7)**	**77.3**	66.0	(0.3)	65.7
Operating expenses:							
Amortisation and impairment of acquired intangible assets		**–**	**(10.0)**	**(10.0)**	–	(9.1)	(9.1)
Amortisation of repurchase of contractual rights	17	**(9.6)**	**–**	**(9.6)**	–	–	–
Foreign exchange losses		**(2.0)**	**–**	**(2.0)**	(4.0)	–	(4.0)
Other		**(33.7)**	**–**	**(33.7)**	(25.3)	–	(25.3)
Operating expenses: total		**(45.3)**	**(10.0)**	**(55.3)**	(29.3)	(9.1)	(38.4)
Research and development	5	**(32.1)**	**–**	**(32.1)**	(27.0)	–	(27.0)
Profit on disposal of intangible assets and investments	6	**1.5**	**–**	**1.5**	1.1	–	1.1
Acquisition and reorganisation costs	7	**–**	**(3.8)**	**(3.8)**	–	0.7	0.7
Amounts written off investments	8	**(1.4)**	**–**	**(1.4)**	–	–	–
Operating (loss)/profit							
Existing operations		**1.0**	**(15.5)**	**(14.5)**	10.8	(8.7)	2.1
Acquisitions		**0.7**	**–**	**0.7**	–	–	–
Operating (loss)/profit	9	**1.7**	**(15.5)**	**(13.8)**	10.8	(8.7)	2.1
Financial income	11			**3.1**			7.1
Financial expense	12			**(0.1)**			(0.1)
(Loss)/profit before tax				**(10.8)**			9.1
Tax	13			**20.0**			2.2
Profit for the year				**9.2**			11.3
Basic and diluted earnings per share	15			**3.4p**			4.4p

All activity arose from continuing operations and the profit in each year is fully attributable to the owners of the Company.

The notes on pages 79 to 127 form part of these financial statements.

Consolidated statement of comprehensive income

	Note	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit for the period		**9.2**	11.3
Other comprehensive income			
Foreign exchange translation differences	24	**(2.7)**	(0.8)
Actuarial gain/(loss) on pension liabilities	29	**3.9**	(12.0)
Change in fair value of equity securities available-for-sale	24	**(0.1)**	–
Other comprehensive income for the year		**1.1**	(12.8)
Total comprehensive income for the year		**10.3**	(1.5)

The notes on pages 79 to 127 form part of these financial statements.

Consolidated statement of financial position

	Note	31 March 2011 £m	31 March 2010 £m
ASSETS			
Non-current assets			
Goodwill	16	**59.2**	30.3
Intangible assets	17	**271.0**	152.7
Property, plant and equipment	18	**24.8**	10.6
Other investments	20	**2.7**	3.7
Deferred tax asset	13	**0.9**	0.6
Biological assets		**0.3**	–
		358.9	197.9
Current assets			
Inventories	21	**20.0**	9.6
Trade and other receivables	22	**32.7**	20.4
Taxation	13	**1.0**	0.5
Derivative instruments	26	**2.0**	–
Held to maturity financial assets	23	**10.2**	–
Cash and cash equivalents	23	**63.7**	82.6
		129.6	113.1
Total assets		**488.5**	311.0
EQUITY			
Share capital	24	**32.7**	25.8
Share premium account	24	**188.2**	188.1
Merger reserve	24	**317.8**	158.1
Other reserves	24	**(3.7)**	(0.9)
Retained earnings	24	**(142.7)**	(155.9)
Total equity attributable to equity holders of the parent		**392.3**	215.2
LIABILITIES			
Non-current liabilities			
Trade and other payables	25	**6.9**	8.5
Borrowings	27	**2.9**	–
Obligations under finance leases	28	**0.2**	0.6
Employee benefits	29	**2.0**	9.2
Deferred taxation	13	**30.7**	33.4
Provisions	32	**1.2**	0.7
		43.9	52.4
Current liabilities			
Trade and other payables	25	**49.8**	40.8
Obligations under finance leases	28	**0.4**	0.7
Derivative instruments	26	**–**	0.8
Taxation	13	**0.3**	–
Provisions	32	**1.8**	1.1
		52.3	43.4
Total liabilities		**96.2**	95.8
Total equity and liabilities		**488.5**	311.0

The notes on pages 79 to 127 form part of these financial statements.

The financial statements were approved by the Board on 24 May 2011 and were signed on its behalf by:

Dr Louise Makin **Rolf Soderstrom**
Chief Executive Officer Chief Financial Officer Registered No: 2670500

Consolidated statement of cash flows

	Note	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit after tax for the year		**9.2**	11.3
Tax		**(20.0)**	(2.2)
Financial income		**(3.1)**	(7.1)
Financial expense		**0.1**	0.1
Operating (loss)/profit		**(13.8)**	2.1
Adjustments for:			
Profit on disposal of intangible assets and investments		**(1.5)**	(1.1)
Amounts written off investments		**1.4**	–
Amortisation and impairment of intangible assets		**21.5**	9.9
Depreciation on property, plant and equipment		**2.4**	2.5
Share-based payments		**0.6**	1.1
Pension scheme funding		**(3.3)**	(2.8)
Costs of acquisition recognised in equity		**(0.6)**	–
Other		**(0.3)**	0.3
Share of associates' losses		**–**	0.3
Cash from operations before movements in working capital		**6.4**	12.3
(Increase)/decrease in inventories		**(5.4)**	1.2
(Increase)/decrease in trade and other receivables		**(6.7)**	9.4
(Decrease) in trade and other payables		**(5.0)**	(8.5)
(Decrease) in provisions		**–**	(6.1)
Cash from operations		**(10.7)**	8.3
Interest expense		**–**	(0.1)
Taxation paid		**(1.3)**	(2.4)
Net cash (outflow)/inflow from operating activities		**(12.0)**	5.8
Investing activities			
Interest received		**0.4**	0.6
Purchases of intangible assets		**(10.1)**	(1.2)
Purchases of property, plant and equipment		**(11.2)**	(1.5)
Net proceeds from disposal of investments and intangible assets		**1.5**	(0.3)
Net expenditure on investments		**(0.5)**	(0.2)
Net cash acquired from acquisition of Biocompatibles International plc	38	**14.4**	–
Net cash outflow from investing activities		**(5.5)**	(2.6)
Cash flows from financing activities			
Repayment of borrowings		**–**	(0.2)
Repayment of finance leases		**(0.7)**	(0.8)
Proceeds of share issues		**0.1**	2.4
Net cash from financing activities		**(0.6)**	1.4
(Decrease)/increase in cash and cash equivalents		**(18.1)**	4.6
Cash and cash equivalents at start of year		**82.6**	78.2
Effect of exchange rate fluctuations on cash held		**(0.8)**	(0.2)
Cash and cash equivalents at end of year	23	**63.7**	82.6

The notes on pages 79 to 127 form part of these financial statements.

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 April 2009	25.5	187.3	156.5	(0.1)	(156.6)	212.6
Profit for the year	–	–	–	–	11.3	11.3
Foreign exchange translation differences	–	–	–	(0.8)	–	(0.8)
Actuarial (loss) on pension liabilities	–	–	–		(12.0)	(12.0)
Total comprehensive income for the year	–	–	–	(0.8)	(0.7)	(1.5)
Transactions with owners:						
Issue of BTG plc ordinary shares	0.3	0.8	1.6	–	–	2.7
Movement in shares held by the Trust	–	–	–	–	0.3	0.3
Share-based payments	–	–	–	–	1.1	1.1
At **31 March 2010**	**25.8**	**188.1**	**158.1**	**(0.9)**	**(155.9)**	**215.2**

	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 April 2010	25.8	188.1	158.1	(0.9)	(155.9)	215.2
Profit for the year	–	–	–	–	9.2	9.2
Foreign exchange translation differences	–	–	–	(2.7)	–	(2.7)
Actuarial gain on pension liabilities	–	–	–		3.9	3.9
Change in fair value of equity securities available-for-sale	–	–	–	(0.1)	–	(0.1)
Total comprehensive income for the year	–	–	–	(2.8)	13.1	10.3
Transactions with owners:						
Issue of BTG plc ordinary shares	–	0.1	–	–	–	0.1
Issued on acquisition of Biocompatibles International plc	6.9	–	159.7	–	–	166.6
Movement in shares held by the Trust	–	–	–	–	(0.5)	(0.5)
Share-based payments	–	–	–	–	0.6	0.6
At 31 March 2011	**32.7**	**188.2**	**317.8**	**(3.7)**	**(142.7)**	**392.3**

The notes on pages 79 to 127 form part of these financial statements.

1 General information

BTG plc (the Company) is a company incorporated and domiciled in the United Kingdom and listed on the London Stock Exchange. The consolidated financial statements of the Company for the year ended 31 March 2011 comprise the results of the Company and its subsidiary undertakings (together referred to as the Group) and the Group's interest in associates.

The financial statements were approved for issue by the Board on 24 May 2011.

The financial statements have been prepared in accordance with the Group's accounting policies as approved by the Board and described below.

Accounting standards adopted in the year
The following accounting standards have been adopted in the year:

IFRS3 revised – Business Combinations
The adoption of IFRS3 revised has resulted in £3.0m of transaction costs being recognised through the Group's consolidated income statement in relation to the acquisition of Biocompatibles International plc as detailed in notes 7 and 38. The costs were incurred with professional advisers directly in relation to the acquisition and reduce basic and diluted earnings per share by 1.1p.

IAS41 – Biological Assets
As part of the acquisition of land in Australia on which the Group manages sheep, a breeding flock of sheep was purchased. These have been accounted for in accordance with IAS41 and are held at fair value. At 31 March 2011 the carrying value of this breeding flock was £0.3m. As in previous periods the Group continues to account for its production flock of sheep within property, plant and equipment in accordance with IAS16.

Other accounting standards adopted in the year
The following amendments and standards have also been adopted, but have had no significant effect on the reported results or financial position of the Group:
- IFRS1 (Revised) – simplification of the structure of IFRS1 without making any technical changes;
- Amendments to IFRS2 – Group cash-settled share-based payments transactions;
- IAS27 – this requires the effects of all transactions with non-controlling interests where there is no change in control to be recorded in equity;
- IFRIC18 – clarification of the accounting for arrangements where an item of property, plant and equipment, provided by the customer, is used to provide an ongoing service;
- IAS38 Intangible Assets – additional consequential amendments arising from revised IFRS3; and
- Improvements to IFRS – various standards amended.

Accounting standards issued but not yet effective
The Group does not consider that any of the other standards or interpretations issued but as yet not effective will have a significant impact on the financial statements.

Accounting policies adopted as a result of the acquisition of Biocompatibles International plc
As a result of the acquisition of Biocompatibles International plc, the Group has adopted additional accounting policies in relation to areas that were not previously relevant to the Group:
- Held to maturity financial assets – see 2(l);
- Revenues received in relation to development programmes – see 2(r)(iv); and
- Borrowings – see 2(z).

Going concern basis
After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

This conclusion has been reached having considered the effect of liquidity risk on the Group's ability to operate effectively. Currently, liquidity risk is not considered a significant business risk to the Group given its level of net cash and cash flow projections. The Group does not currently require significant levels of debt financing to operate its business. Further details of the Group's policies and objectives around liquidity risk are given in note 33 to the Accounts. The key liquidity risks faced by the Group are considered to be the failure of banks where funds are deposited and the failure of key licensees or insurers.

1 General information continued

In addition to the liquidity risks considered above, the directors have also considered the following factors when reaching the conclusion to continue to adopt the going concern basis:
— The Group's principal licensees are global industry leaders in their respective fields and the Group's royalty-generating intellectual property consists of a broad portfolio of both licensees and industries;
— The Group's Marketed Products are life-saving in nature, providing some protection against an uncertain economic outlook; and
— The purchase of Biocompatibles International plc in January 2011 resulted in a net cash inflow of £10.8m plus held to maturity financial assets of £10.2m and a further diversification of market and development risk for the Group as a whole.

Acquisition adjustments and reorganisation costs
The consolidated income statement includes a separate column to disclose significant acquisition adjustments and reorganisation costs arising on corporate acquisitions. Adjustments relate to the acquisitions of:
— Biocompatibles International plc in January 2011; and
— Protherics PLC in December 2008.

The costs relate to the following:
— The release of the fair value uplift of inventory acquired;
— Amortisation arising on intangible assets acquired;
— Transaction costs incurred with professional advisers in relation to the completion of the acquisition; and
— Reorganisation costs comprising acquisition related redundancy programmes, property costs, and asset impairments.

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

(a) Basis of accounting and preparation of financial statements
The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The consolidated financial statements also comply fully with IFRSs as issued by the International Accounting Standards Board.

The Group financial statements are presented in Sterling and all values are rounded to the nearest £0.1m except where otherwise indicated and have been prepared on the historical cost basis modified to include revaluation to fair value of certain financial instruments and business combination assets as set out below.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

(b) Basis of consolidation
(i) Subsidiary undertakings
Subsidiary undertakings are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiary undertakings are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's proportionate share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying value of its interest in an associate, the Group's carrying amount is reduced to nil and no further losses are recognised except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

2 Accounting policies continued

(iii) Acquisition accounting

The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets, including intangible assets acquired, is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group.

(iv) Merger reserve

A merger reserve is used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under s612 and s613 of the Companies Act 2006.

(v) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company.

(vi) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments. If an investment suffers impairment due to a prolonged or significant decline in the fair value below acquisition cost, its share of the reserve is recycled to the income statement and any further declines in fair value of that investment are no longer charged to the reserve but immediately taken to the income statement.

(vii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Operating segments

An operating segment is defined as a component of the Group (i) that engages in business activities from which it may earn revenues and incur expenses; (ii) whose operating results are regularly reviewed by the Group's chief operating decision maker (the Leadership Team) to make resource allocation decisions and monitor its performance; and (iii) for which discrete financial information is available.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. Exchange gains/losses on retranslation of foreign currency transactions and balances within trading intercompany balances are recognised in the income statement within 'Operating expenses'.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into Sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into Sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in the translation reserve.

2 Accounting policies continued

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to the translation reserve. They are released into the income statement upon disposal of the investment.

(e) Derivative financial instruments

Derivative financial instruments are recognised at fair value and are designated as being measured at fair value through the income statement on inception. The gain or loss on remeasurement to fair value is recognised immediately in the income statement through 'Financial income' or 'Financial expense' as appropriate.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(f) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiary undertakings and associates. In respect of business combinations that have occurred since 1 April 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, including intangible assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see 2(m)). In respect of associates, the carrying value of goodwill is included in the carrying value of the investment in the associate.

(g) Intangible assets

(i) Initial recognition

Intangible assets acquired as a result of a business combination are initially recognised at their fair value in accordance with IFRS3 – 'Business Combinations'.

Other intangible assets are initially recognised at cost. Cost includes the cost of obtaining patent protection for intellectual property rights, the cost of acquisition of patents and the costs of the internal patent attorney specific to obtaining the initial grant of a patent. Income from patents is derived through licensing and other agreements.

(ii) Amortisation

Intangible assets are amortised in a manner calculated to write off the cost, on a straight-line basis, over the effective life of the asset. In determining the appropriate life of the asset, consideration is given to the expected cash generating life of the asset or remaining patent life if different.

The effective life of each class of asset is determined as follows:

- Developed technology: expected cash generating life, taking into account specific product and market characteristics for each developed technology;
- Contractual relationships: period to expiry of the contract;
- In-process research and development: amortisation is not charged until the asset is generating an economic return, at which point the effective life is assessed by reference to the remaining patent life;
- Computer software: the shorter of the licence period and three years; and
- Patents: period to patent expiry.

In the event that an intangible asset is no longer used or a patent is abandoned, the balance of unamortised expenditure is written off immediately.

The following useful economic lives are applied:

Developed technology	2 to 25 years
Contractual relationships	2 to 15 years
In-process research and development	12 to 25 years
Computer software	3 years
Patents	20 years

(iii) Income statement disclosure
Amortisation and impairment of intangible assets is included within operating expenses in the income statement.

(iv) Subsequent expenditure
Expenditure subsequent to the initial acquisition of intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Impairment
If an intangible asset is considered to have suffered impairment in value it is written down to its estimated recoverable amount in accordance with the Group's policy on impairment (see note 2(m)).

(h) Property, plant and equipment
(i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(m)).

(ii) Depreciation
Depreciation is charged to the income statement on a straight-line basis to write assets down to their residual value using the following useful economic lives:

Buildings and improvements	10 to 20 years
Leasehold improvements	2 to 10 years
Plant and machinery	5 to 15 years
Furniture and equipment	2 to 15 years
Motor vehicles	5 years
Computer hardware	3 to 5 years

Depreciation is not charged until the asset is brought into use. The residual value is reassessed annually.

(iii) Income statement disclosure
Depreciation and impairment of tangible fixed assets is included within Operating expenses in the income statement.

Profits and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit/loss on sale of tangible assets in the income statement.

(iv) Subsequent expenditure
Expenditure subsequent to the initial acquisition of a tangible fixed asset is capitalised only when it is probable that the Group will realise future economic benefits from the asset.

(v) Impairment
If a tangible asset is considered to have suffered impairment in value, it is written down to its estimated recoverable amount in accordance with the Group's policy on impairment (see note 2(m)).

(i) Investments
Investments in debt and equity securities held by the Group, classified as being available-for-sale, are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are taken to the income statement. When these investments are no longer recognised as assets, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

(j) Inventories
Inventories are valued at the lower of cost and net realisable value. The first in, first out method of valuation is used. Cost comprises materials, direct labour and a share of production overheads appropriate to the relevant stage of production. Provision is made for obsolete, slow-moving or defective items where appropriate. Net realisable value is determined at the balance sheet date on commercially saleable products based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

2 Accounting policies continued

Inventories relating to research and development projects are fully written down in the income statement unless the Group considers it probable to realise economic value from their sale or use. If the circumstances that previously caused these inventories to be written down below cost subsequently change and there is clear evidence of an increase in realisable value, the write down is reversed.

(k) Trade and other receivables
Trade and other receivables do not carry interest and are stated at amortised cost less impairment losses (see 2(m)).

(l) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management and for which the Group has a legal right of set-off are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash deposits with a maturity of greater than three months are classified as held to maturity financial assets.

(m) Impairment
Impairment testing is performed for all assets when there is an indicator of impairment.

In addition, for goodwill and unamortised intangible assets, impairment testing is performed both in the year of acquisition and annually at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Other specific categories of asset are treated as follows:

(i) Equity investments
Impairment is deemed to arise when there is a significant or prolonged decline in the fair value of the equity instrument. Impairment losses are recognised in the income statement.

(ii) Property, plant and equipment
Property, plant and equipment are subject to impairment testing at each balance sheet date and whenever there are events that indicate that an impairment may have occurred. An impairment loss is recognised if an asset's carrying amount exceeds the greater of its value in use and fair value less costs to sell. Impairment losses are recognised within operating expenses in the income statement.

(iii) Amortised intangible assets
Amortised intangible assets are also tested for impairment whenever there are indications that the carrying value may not be recoverable. Intangible assets are grouped at the lowest level for which there are separately identifiable cash flows. Any impairment losses are recognised immediately in the income statement. When assessing the recoverable amount of an intangible asset the Group uses a risk adjusted discounted cash flow model.

(iv) Available-for-sale assets
When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

(n) Government grants

Government grants towards staff re-training costs are recognised as income over the periods in which the related costs are incurred and are deducted in reporting the related expense.

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the useful lives of the assets concerned.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. Payments made to state-managed retirement benefit schemes are dealt with in the same manner as payments to defined contribution plans where the Group's obligations under the plans are equivalent to a defined contribution retirement benefit plan. The funds of the schemes are independent of the Group's finances.

(ii) Defined benefit plan

For the Group's defined benefit pension plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Allowance is made in the assessment of the defined benefit obligation for future costs of administering the plan. The assumptions used to determine the valuation are shown in note 29. Actuarial gains and losses are recognised in full in the period in which they occur. Actuarial gains and losses are recognised outside the income statement and presented in the consolidated statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits have already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, reduced by the fair value of scheme assets. The retirement benefit obligation includes an allowance for future administrative costs of running the scheme. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Assets of the pension scheme are held separately from the Group's assets.

(iii) Share-based payments

In accordance with the transition provisions of IFRS1 (First-time Adoption of International Financial Reporting Standards), IFRS2 (Share-based Payments) has been applied to all share-based grants made to employees after 7 November 2002 that had not vested as of 1 January 2005.

The share option programme allows Group employees to acquire shares of the Company, subject to certain criteria. The fair value of options granted is recognised as an expense of employment in the income statement with a corresponding increase in equity. The fair value is measured at the date of grant and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a bi-nomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense in any year is adjusted to reflect the actual number of share options that vest. However if share options fail to vest due to share prices not achieving the designated performance threshold for vesting, no such adjustment takes place.

(p) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

A charge for reorganisation costs is taken to the income statement when the Group has approved a detailed and formal reorganisation plan, and the reorganisation has either commenced or the Group has a constructive obligation, for example having made an announcement publicly to the employee or the Group as a whole.

2 Accounting policies continued

(q) Trade and other payables
Trade and other payables are not interest bearing and are stated at amortised cost except for the contingent value note which is recognised at fair value.

(r) Revenue recognition
Revenue represents amounts received or receivable in respect of the sale of marketed products to customers during the year, net of trade discounts given and value added tax, and in respect of royalty arrangements.

A description of the various elements of revenue and the associated accounting policies is given below:

(i) Marketed products
The Group recognises revenue for marketed product sales when each condition of IAS18, paragraph 14 is wholly-satisfied. Where sales arrangements specify a second element of revenue contingent upon a specified event, this revenue is not recognised until this event has occurred and it is certain that the economic benefit triggered by this event will flow to the Group. In cases where product is sold to a customer with a right of replacement, the Group views the transaction as a multi-element arrangement and a portion of the value from the sale is deferred and allocated to the replacement right based on the fair value of the replacement right. Revenue is recognised net of any trade discounts that may be given from time-to-time.

(ii) Royalties
Revenues from the Group's licensed programmes are generated following the grant of a licence to a third-party to undertake additional development and commercialisation of a research and development programme or other intellectual property rights.

In addition to an upfront payment, BTG may be entitled to additional revenues such as milestone payments or royalties on revenues generated by the licensee. Revenues associated with royalty arrangements may in turn be linked to additional obligations on BTG. These revenues are accounted for in line with IAS18 as follows:

Upfront and milestone payments
Non-refundable upfront and milestone payments are recognised as the earnings process is completed. This may result in full recognition in the year in which the income is received. However, where the Group has ongoing performance obligations such as the delivery of products or services, upfront payments are deferred over the period in which these obligations are satisfied. Associated costs of performance obligations are expensed in the period to which they relate. In determining the performance obligations under the contract, consideration is given as to whether elements of the obligations meet the criteria for separate accounting. The Group applies the substantive milestone method in accounting for subsequent milestone payments. Milestone payments that are considered substantive are recognised into income in the year in which they are received. Milestones that do not satisfy the criteria to be considered as substantive are amortised over the remaining period in which the Group expects to fulfil its performance obligations under the agreement. The Group considers the following when assessing whether a milestone is considered substantive:
- Are the milestone payments non-refundable?
- Does the achievement of the milestone involve a degree of risk that was not reasonably assured at the inception of the arrangement?
- Is substantive effort involved in achieving the milestone?
- Is the amount of the milestone payment reasonable in relation to the effort expended or the risk associated with the achievement of the milestone?
- How does the time that passes between the payments compare to the effort required to reach the milestone?

Outlicensed product royalties
Royalty income is generated by sales of products incorporating the Group's proprietary technology. Royalty revenues are recognised once the amounts due can be reliably estimated based on the sale of underlying products and recoverability is assured. Where there is insufficient historical data on sales and returns to fulfil these requirements, for example in the case of a new product, the royalty revenue will not be recognised until the Group can reliably estimate the underlying sales.

(iii) Sales/assignments of IPR
Outright sales or assignments of IPR are treated as disposals of non-current assets.

2 Accounting policies continued

(iv) Revenues received in relation to development programmes

Revenue received in relation to development programmes is recognised based on the percentage of completion of the programme. Where payments may be earned in such programmes, based on the achievement of uncertain milestones, revenue is restricted to the cumulative cash receivable for the programme.

(s) Research and development

Research and development expenditure is charged to the income statement in the period in which it is incurred. Expenditure incurred on development projects (relating to the design and testing of new or improved products) is recognised as intangible assets when it is probable that the project will generate future economic benefit, considering factors including its commercial and technological feasibility, status of regulatory approval, and the ability to measure costs reliably. Other development expenditures are recognised as an expense as incurred. Development expenditure previously recognised as an expense is not recognised as an asset in a subsequent period. Development expenditure that has a finite useful life and which has been capitalised is amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

No development expenditure has been capitalised in either the current or prior year.

Property, plant and equipment used for research and development is depreciated in accordance with the Group's policy and the cost is included within 'Research and development' in the income statement.

(t) Cost of sales

Cost of sales includes the direct costs incurred in manufacturing and bringing products to sale in the market and revenue sharing costs.

Revenue sharing costs represent amounts due under royalty arrangements to licensors or assignees of technology and similar directly attributable items. Amounts are recognised upon recognition by the Group of amounts due from a licensee. They are recognised on an accruals basis in accordance with the individual agreements relating to the relevant technology, in line with revenue recognition.

(u) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Such assets are depreciated over the shorter of their estimated useful lives or the length of the lease. Assets purchased under hire purchase agreements are accounted for similarly, except that these assets are depreciated over their estimated useful lives.

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease within the appropriate functional expenditure heading.

(v) Financial income

Net financial income comprises interest income less interest payable during the year, calculated using the effective interest rate method, and fair value adjustments relating to foreign exchange forward contracts.

(w) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2 Accounting policies continued

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associates, where it is probable that the temporary differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying value of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(x) BTG Employee Share Trust
Included within the Group's financial results are those of the BTG Employee Share Trust, the costs of which are expensed within the financial statements of the Trust as incurred.

In the Company accounts the cost of BTG shares held by the Trust is deducted from shareholders' funds.

(y) Financial guarantees
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contracts as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(z) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate.

3 Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements
In the process of applying the Group's accounting policies, described in note 2, management and the Audit Committee discussed and agreed the selection, application and disclosure of the Group's critical accounting policies and the estimates used in the preparation of the accounts.

Revenue recognition
As described in note 2, it is the Group's policy to recognise non-refundable upfront payments over the period in which any performance obligations are satisfied. In December 2008, the Group acquired Protherics which had received £16.3m from AstraZeneca UK Ltd in a Patent and Know How Licence Agreement for CytoFab™. The Group considers that its obligations under the licence agreement consist of the licence, provision of development services, regulatory support and steering committee participation. The Group considers that the development services and the regulatory support it can supply will cease with the approval of CytoFab™ by the FDA and while the steering committee continues to operate after product approval by the FDA, the Group has received confirmation that its participation after this date would become voluntary. Based on the clinical development plan to be undertaken by AstraZeneca, the Group currently estimates that its performance under the agreement will be completed over the period to 31 December 2015 and, therefore, is recognising the £16.3m on a straight-line basis, over the estimated performance period.

In determining the revenue recognition period, management considered the detailed criteria for the recognition of revenue per IAS18, Revenue, and is satisfied that all requirements have been met by the Group.

3 Critical accounting judgements and key sources of estimation uncertainty continued

Acquisitions

Judgements have been made in respect of the identification of intangible assets made on acquisitions based on pre-acquisition forecasts, analysis and negotiations. In addition to the judgements and estimates made in establishing the intangible assets acquired and their value, in certain instances these assets are in development and are only amortised once the development phase has been completed, although these assets are subjected to impairment review in accordance with the accounting policy described in note 2(m).

In addition to significant fair value adjustments in relation to intangible assets, the Group has recognised other fair value adjustments on assets and liabilities acquired. Each adjustment has been calculated in line with the requirements of IFRS3 (revised). The most significant of these relate to:

- Inventory: where inventory acquired has been uplifted in value to be held at estimated selling price less costs to complete, costs of disposal and a reasonable profit allowance; and
- Deferred tax: where estimates of deferred tax liabilities arising on acquired intangible assets have been recognised. Where appropriate an associated deferred tax asset, representing management's estimation of the value of tax losses that would be available to the Group to offset the deferred tax liability (see below) has also been recognised.

Deferred tax asset

The Group recognised an additional deferred tax asset of £18.6m in relation to brought-forward US tax losses during the year ended 31 March 2011. In accordance with IAS12, this asset has been set off against the Group's aggregate US deferred tax liability. The asset was recognised following the completion of a tax-free reorganisation of certain of the Group's US taxable entities on 31 March 2011. As a result of this, when performing its annual assessment of the probability of utilising such losses, management concluded that there was now sufficient certainty over the future utilisation of the losses to recognise a deferred tax asset.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill and other intangibles

Determining whether goodwill and other intangibles are impaired requires an estimation of the value in use of the cash-generating units to which goodwill or other intangible assets have been allocated. The value in use calculation requires estimation of future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. There is a risk of a material adverse impact on the income statement should an impairment adjustment be required to be reflected in the financial statements. See note 2(m) for further details.

Fair value of listed and unlisted investments

Note 20 explains the basis for estimating the fair value of listed and unlisted investments.

Pension assumptions

Note 29 details the key actuarial assumptions used to establish the pension funding position. These are the best estimates chosen based on historic experience and future expectations. Should the discount rate used to establish scheme liabilities or the long-term expected rate of return on investment vary significantly then the pension fund valuation would be impacted.

Deferred tax

The Group has significant deferred tax assets principally in relation to losses in the US and the UK. The assets have been recognised on the basis that management estimates demonstrate that it is more likely than not that future taxable profit will arise in the jurisdictions in which the losses are available. If actual events differ from management's estimates or the estimates are changed in the future this could have a significant effect on the balance sheet net asset position of the Group. In recognising deferred tax assets and liabilities, management has taken into account expected changes in tax rates in each relevant jurisdiction.

4 Operating segments

The Group's operating segments, as identified and reported in line with the requirements of IFRS8, have been updated during the course of the year to reflect the acquisition of Biocompatibles International plc in January 2011. There are no inter-segment transactions that are required to be eliminated on consolidation.

Period through to the acquisition of Biocompatibles
All significant decisions are made by the Leadership Team (which is BTG's chief operating decision-making body as defined by IFRS8), with implementation of that decision on a Group-wide basis then being the responsibility of each member of the team or of cross-functional global teams where appropriate. The sales, manufacturing, business development, research and development and support functions are managed and operate on a global basis and are not dedicated to individual product, marketing or therapy areas.

In assessing performance and making resource allocation decisions, the Leadership Team reviews gross profit by segment, reflecting the two distinct routes available to it in realising commercial value from its assets. All other financial information, including assets, is presented on a consolidated basis for the Group as a whole, substantially in the form of, and on the same basis as, the Group's IFRS financial statements. Gross profit is generated from marketed products, such as CroFab® and DigiFab®, or from royalty arrangements such as Factor IX, Campath® (alemtuzumab) and Two-Part Hip-Cup. Royalty revenues are receivable on a broad portfolio of underlying intellectual property rights, covering amongst other things pharmaceutical products, medical devices and electronic components.

Research and development is an essential upstream activity of the Group, without which there could be no royalty or marketed product revenues. Research and development activities are managed on a consolidated, Group-wide basis and are not managed by reference to the Group's operating segments.

Effect of acquisition of Biocompatibles
The Group completed the acquisition of Biocompatibles International plc (note 38) on 27 January 2011. The Group's consolidated results for the financial year ended 31 March 2011 therefore contain approximately two months of trading in respect of Biocompatibles.

As a result of this acquisition, representatives from the Biocompatibles business joined the Leadership Team, the Group's chief operating decision-maker. The proximity of the acquisition to the year end, however, meant that existing operating segments were not changed. Financial performance of the Biocompatibles business in the period since acquisition has been monitored by the Leadership Team on a stand-alone basis. Resource decisions have, to date, also been made having regard to the Biocompatibles business as a stand alone entity; though the full Leadership Team is involved in the decision-making process.

The Biocompatibles business has therefore been identified and disclosed as a separate operating segment. Acquisition and reorganisation costs are not allocated to specific operating segments.

As the Group continues its integration of the recent Biocompatibles acquisition the management structure and reporting of results within the Company may change in the future to be more closely aligned to the three focus areas outlined in the Chief Executive Officer's review on pages 16 to 19, being 'Specialty Pharmaceuticals', 'Interventional Medicine' and 'Licensing and Biotechnology'. No decision has yet been made or implemented.

4 Operating segments continued

	Year ended 31 March 2011					
	Marketed products £m	Royalties £m	Sub-total £m	Biocompatibles £m	Acquisition adjustment and reorganisation costs £m	Total £m
Revenue	**35.4**	**70.0**	**105.4**	**6.0**	**–**	**111.4**
Cost of sales	(8.8)	(22.3)	(31.1)	(1.3)	(1.7)	(34.1)
Gross profit	**26.6**	**47.7**	**74.3**	**4.7**	**(1.7)**	**77.3**
Operating expenses:						
Amortisation and impairment of acquired intangibles			(8.2)	–	(1.8)	(10.0)
Amortisation of repurchase of contractual rights			(9.6)	–	–	(9.6)
Foreign exchange losses			(2.1)	0.1	–	(2.0)
Other			(31.1)	(2.6)	–	(33.7)
Operating expenses: total			(51.0)	(2.5)	(1.8)	(55.3)
Research and development			(30.6)	(1.5)	–	(32.1)
Profit on disposal of intangible assets and investments			1.5	–	–	1.5
Acquisition and reorganisation costs			–	–	(3.8)	(3.8)
Amounts written off investments			(1.4)	–	–	(1.4)
Operating (loss)/profit			(7.2)	0.7	(7.3)	(13.8)
Financial income						3.1
Financial expense						(0.1)
(Loss) before tax						(10.8)
Tax						20.0
Profit for the year						9.2
Unallocated assets						488.5

4 Operating segments continued

	Year ended 31 March 2010		
	Marketed products £m	Royalties £m	Total £m
Revenue	34.3	64.2	98.5
Cost of sales*	(15.2)	(17.6)	(32.8)
Gross profit	19.1	46.6	65.7
Operating expenses:			
Amortisation and impairment of acquired intangibles			(9.1)
Foreign exchange losses			(4.0)
Other			(25.3)
Operating expenses: total			(38.4)
Research and development			(27.0)
Profit on disposal of investments and intangible assets			1.1
Acquisition and reorganisation costs			0.7
Operating profit			2.1
Financial income			7.1
Financial expense			(0.1)
Profit before tax			9.1
Tax			2.2
Profit for the year			11.3
Unallocated assets			311.0

*2010 includes a £0.3m adjustment within marketed products representing the reversal of a fair value uplift of inventory purchased on acquisition of Protherics PLC recognised through the income statement when the product was sold.

Geographical revenue analysis

Geographical analysis of revenue, based on the geographical location of customers:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
US	**96.2**	82.9
UK	**9.3**	8.3
Europe (excluding UK)	**5.0**	5.9
Other regions	**0.9**	1.4
	111.4	98.5

Major customers

Products that utilise the Group's intellectual property rights are sold by licensees. Royalty income is derived from over 70 licences. Two licences individually generated royalty income in excess of 10% of Group revenue, being £28.7m and £12.4m respectively (2010: One licence generated £26.6m).

The Group's marketed products are sold both directly and also through several distribution agreements in the US, Europe and Asia Pacific. One distribution agreement individually generated income in excess of 10% of Group revenue, being £12.4m (2010: One distribution agreement generated £27.9m).

5 Research and development expenses

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Expenditure on internal development programmes	**32.1**	26.7
Share of results of research associates	**–**	0.3
	32.1	27.0

6 Profit on disposal of intangible assets and investments

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit on disposal of patents	**1.5**	1.1

Profit is shown net of £1.8m (2010: £0.4m) to be shared with the inventive source.

Loss relief has absorbed the tax due in respect of the profit on disposals.

7 Acquisition and reorganisation costs

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
BTG plc and Biocompatibles International plc costs	**3.8**	–
BTG plc and Protherics PLC costs	**–**	(0.7)
	3.8	(0.7)

The Group considers 'acquisition and reorganisation costs' to include transaction costs of completing the acquisition (in line with IFRS3 revised) and those costs resulting directly from decisions to rationalise both operating sites and business operations. Transaction costs of £3.0m (2010: nil) have been expensed in relation to the acquisition of Biocompatibles International plc. A further £1.1m has been debited directly to merger reserve (note 24).

8 Amounts written off investments

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Amounts written off investments	**1.4**	–

An impairment charge of £1.4m has been recognised in the consolidated income statement in relation to one of the Group's equity investments in an unlisted drug development company. The impairment charge was triggered by a funding round conducted by the investee company at a price per share significantly below previous funding rounds. It is the Group's policy to hold unlisted equity investments at fair value, which is deemed to be the most recent funding round price. The magnitude of the reduction in price per share has resulted in an impairment charge reflected in the consolidated income statement rather than through the Group's fair value reserve within equity.

9 Operating (loss)/profit

	Year ended 31 March 2011			Year ended 31 March 2010		
	Existing operations £m	**Acquisitions £m**	**Continuing operations £m**	Existing operations £m	Acquisitions £m	Continuing operations £m
Revenue	**105.4**	**6.0**	**111.4**	98.5	–	98.5
Cost of sales*	**(31.1)**	**(3.0)**	**(34.1)**	(32.8)	–	(32.8)
Gross profit	**74.3**	**3.0**	**77.3**	65.7	–	65.7
Operating expenses	**(52.8)**	**(2.5)**	**(55.3)**	(38.4)	–	(38.4)
Research and development	**(30.6)**	**(1.5)**	**(32.1)**	(27.0)	–	(27.0)
Profit on disposal of intangible assets and investments	**1.5**	**–**	**1.5**	1.1	–	1.1
Acquisition and reorganisation costs	**(3.8)**	**–**	**(3.8)**	0.7	–	0.7
Amounts written off investments	**(1.4)**	**–**	**(1.4)**	–	–	–
Operating (loss)/profit	**(12.8)**	**(1.0)**	**(13.8)**	2.1	–	2.1

*In accordance with IFRS3 Revised, Business Combinations, inventory acquired upon corporate acquisitions has been adjusted to fair value to reflect the profit earned based on the stage of manufacture at the date of acquisition (see note 38). In the year ended 31 March 2011, £1.7m (31 March 2010: £0.3m) of fair value adjustments was incorporated within the cost of sales as the inventory was sold to customers.

Operating (loss)/profit has been arrived at after charging/(crediting):

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Depreciation and other amounts written off property, plant and equipment (note 18)	**2.4**	2.5
Amortisation and impairment of intangible assets (note 17)	**21.5**	9.9
Amounts written off investments (note 8)	**1.4**	–
Net foreign exchange losses	**2.0**	4.0
Research and development expenses (note 5)	**32.1**	27.0
Staff costs (note 10)	**26.8**	19.5
Operating lease rentals payable on property	**1.3**	1.6
Operating lease rentals receivable on property	**(0.3)**	(0.3)
Reorganisation costs, including release of onerous lease provision (note 7)	**3.8**	(0.7)

The analysis of the auditor's remuneration is as follows:

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Fees payable to the Company's auditors for the audit of the Company's annual consolidated accounts	**123**	85
The audit of the Company's subsidiaries pursuant to legislation	**325**	155
Other services pursuant to legislation	**43**	37
Tax services	**47**	54
Services relating to due diligence upon corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	**380**	131
Other services	**12**	110
Fees in respect of the audit of the Group's pension funds	**9**	24

A description of the work of the Audit Committee is set out in the corporate governance statement on pages 44 to 51 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

10 Staff costs

Staff costs (including directors' emoluments and reorganisation costs)

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Salaries	**21.6**	13.9
Social security costs	**2.1**	1.8
Defined contribution pension costs	**1.3**	1.6
Defined benefit pension costs	**0.7**	1.1
Equity-settled transactions	**1.1**	1.1
	26.8	19.5

Staff costs in the year ended 31 March 2011 include those relating to Biocompatibles International plc for the period from acquisition to the end of the financial year, being approximately two months.

Key management personnel are considered to be the directors and their remuneration is disclosed within the remuneration report on pages 57 to 68. In addition to the disclosures in the remuneration report, the charge to income in respect of equity-settled transactions of key management personnel, in accordance with IFRS2, was £0.6m (2010: 0.5m).

The average number of persons employed by the Group during the year (including executive directors), analysed by category, was as follows:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Management	**36**	39
Research and production	**213**	194
Administration and business support	**82**	59
	331	292

Staff numbers in the year ended 31 March 2011 include those relating to Biocompatibles International plc for the period from acquisition to the end of the financial year, being approximately two months.

11 Financial income

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Interest receivable on money market and bank deposits	**0.4**	0.6
Fair value changes of foreign exchange forward contracts	**2.7**	6.5
Financial income	**3.1**	7.1

12 Financial expense

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Interest payable on finance lease and hire purchase borrowings	**0.1**	0.1

13 Tax

An analysis of the tax charge/(credit) for the year, all relating to current operations, is as follows:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Current tax		
UK corporation tax charge/(credit)	–	(0.6)
US income tax charge	**0.2**	–
Overseas tax on royalties	**1.4**	0.1
Adjustments in respect of prior years:		
UK income tax	–	(0.5)
US income tax	–	–
Total current taxation	**1.6**	(1.0)
Deferred taxation		
Deferred tax asset recognised in the period following US reorganisation	**(18.6)**	–
(Increase)/decrease in estimate of recoverable deferred tax asset	**(0.2)**	0.2
Release of deferred tax liability	**(2.8)**	(1.4)
Tax credit for the year	**(20.0)**	(2.2)

Reconciliation of the effective tax rate

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
(Loss)/profit before tax	**(10.8)**	9.1
Tax using UK corporation tax rate of 28% (2010: 28%)	**(3.0)**	2.5
Differences in effective overseas tax rates	**(1.2)**	–
Foreign tax paid	**1.4**	–
Timing differences	**(0.8)**	(3.5)
Non-deductible expenses	**1.5**	–
Additional tax credit for research and development expenditure incurred	**(0.6)**	(0.5)
Adjustments to tax in respect of prior years	–	0.6
Deferred tax assets (recognised)/not recognised	**(19.4)**	4.1
Adjustment to tax rates	**2.8**	–
Estimated utilised losses	**(0.7)**	(5.4)
Tax credit for the year	**(20.0)**	(2.2)

An analysis of amounts included in the consolidated statement of financial position in respect of income taxes is shown below:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Current assets		
UK Corporation tax receivable	**1.0**	0.5
Current liabilities		
US Income tax payable	**0.2**	–
Overseas tax payable on royalties	**0.1**	–
	0.3	–

13 Tax continued

Deferred taxation
The movements in the deferred tax asset and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS12, Income Taxes) during the year are as shown below. The deferred tax asset and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balance net.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2010: 30%). The movement on the deferred tax account is as shown below:

Deferred tax asset (Australia)

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Deferred tax asset recognised at 1 April	**0.6**	0.7
Income statement credit/(debit)	**0.2**	(0.2)
Exchange differences	**0.1**	0.1
Deferred tax asset recognised at 31 March	**0.9**	0.6

The deferred tax asset, which relates to trading losses incurred in Australia, has been recognised in the financial statements following the development of the Group's products in prior years and the directors are of the opinion, based on recent and forecast trading, that the level of profits in Australia in the forthcoming years will lead to the realisation of this asset.

Deferred tax liability
The deferred tax liability of £30.7m (2010: £33.4m) represents the net position after taking into account the offset of deferred tax assets against deferred tax liabilities in each jurisdiction. Deferred tax liabilities arise on intangible assets recognised on acquisitions and deferred tax assets relate to brought forward trading losses. The table below summarises the gross and net position at each balance sheet date:

	Deferred tax assets £m	Deferred tax liabilities £m	Net deferred tax liability £m
At 1 April 2009	(17.6)	52.8	35.2
At 1 April 2010	(15.0)	48.4	33.4
At 31 March 2011	**(55.4)**	**86.1**	**30.7**

The table below reconciles the movement in the deferred tax liability in the period:

Deferred tax liability

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
At 1 April	**33.4**	35.2
Acquisitions (note 38)	**20.4**	–
Deferred tax asset recognised in the period following US reorganisation	**(18.6)**	–
Adjustment to tax rate	**2.8**	–
Released during the period	**(3.4)**	(2.8)
(Increase)/decrease in tax losses available for offset	**(2.2)**	1.4
Exchange differences	**(1.7)**	(0.4)
At 31 March	**30.7**	33.4

13 Tax continued

The Group recognised an additional deferred tax asset of £18.6m in relation to brought forward US tax losses during the year ended 31 March 2011. In accordance with IAS12, this asset has been set off against the Group's aggregate US deferred tax liability. The asset was recognised following the completion of a tax-free reorganisation of certain of the Group's US taxable entities on 31 March 2011. As a result of this, when performing its annual assessment of the probability of utilising such losses, management concluded that there was now sufficient certainty over the future utilisation of the losses to recognise a deferred tax asset.

Deferred tax of £1.7m (2010: £0.4m) has been recognised directly in equity, representing the impact of exchange rate fluctuations on deferred tax balances.

Unrecognised tax losses

In addition to the losses on which the deferred tax asset has been recognised, the Group has additional taxable losses and other timing differences in the UK and the US which arose as a result of the research and development incurred during the start-up of the Group's activities. These losses, which total £180.4m, are available for offset against future taxable profits in these territories. Tax losses of £133.8m in the UK can be carried forward indefinitely. Tax losses of £46.6m in the US can be carried forward for 20 years. The first year in which losses will expire if remaining unutilised is 2016. A deferred tax asset has not been recognised in respect of these losses and other temporary differences of £12.2m since there is uncertainty as to how quickly such losses and temporary differences would be utilised and consequently the recoverability of the deferred tax asset is uncertain. The total amount of deferred tax asset not recognised, measured at 26%, is approximately:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Tax losses	**46.9**	54.2
Deductible temporary differences	**3.2**	10.0
	50.1	64.2

14 Dividends

The Directors do not propose to declare a dividend for the year (2010: nil).

15 Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 March 2011	Year ended 31 March 2010
Profit for the financial year (£m)	**9.2**	11.3
Profit per share (p)		
Basic and diluted	**3.4**	4.4
Number of shares (m)		
Weighted average number of shares – basic	**268.5**	255.9
Effect of share options on issue	**2.5**	1.9
Weighted average number of shares – diluted	**271.0**	257.8

15 Earnings per share continued

The basic and diluted earnings per share from underlying earnings is based on the following data:

	Year ended 31 March 2011	Year ended 31 March 2010
Profit for the financial year (£m)	**9.2**	11.3
Add back:		
Fair value adjustment on acquired inventory	**1.7**	0.3
Amortisation of acquired intangible fixed assets	**6.6**	7.7
Acquisition and reorganisation costs	**3.8**	(1.6)
Reorganisation of US corporate structure	**(18.6)**	–
Underlying earnings	**2.7**	17.7
Profit per share (p)		
Basic and diluted	**1.0**	6.9

Adjustments to profit are shown after taking into account the tax effect of such adjustments on the results as shown in the consolidated income statement as follows:

- No tax adjustment is required on the fair value of acquired inventory;
- The release of deferred tax liability of £3.4m (2010: £1.4m) as shown in note 13 has been deducted from the amortisation and impairment of acquired intangible assets of £10.0m (2010: £9.1m) as shown in the consolidated income statement;
- A reorganisation cost of £3.8m in the consolidated income statement has not been adjusted for tax as there is no expectation of the costs being deductible for tax in this financial year. In the year ended 31 March 2010, £0.9m of tax effect of reorganisation costs has been adjusted on the basis that the tax charge would have been £0.9m higher had it not been for deductions available against reorganisation costs paid in that financial year; and
- An adjustment has been made for the one-off deferred tax credit recognised as a result of the completion of a tax-free reorganisation in the year.

16 Goodwill

	£m
At 1 April 2009	30.0
Additions	0.3
At 1 April 2010	30.3
Additions	28.9
At 31 March 2011	**59.2**
Accumulated impairment losses	
At 1 April 2009, 1 April 2010 and 31 March 2011	–
Net book value at 31 March 2011	**59.2**
Net book value at 1 April 2010	30.3
Net book value at 1 April 2009	30.0

Additions of £28.9m in the year ended 31 March 2011 relate to the acquisition of Biocompatibles International plc in January 2011 (see note 38).

16 Goodwill continued

Impairment review – goodwill and intangible assets
An impairment review of the carrying value of goodwill and unamortised intangible assets was conducted as at 31 March 2011.

Goodwill arose on the acquisitions of Protherics PLC and Biocompatibles International plc (see note 38). This has been allocated across the Group's cash generating units, being its operating segments (see note 4). Goodwill recognised on acquisition of Protherics PLC has been allocated across operating segments in proportion to the anticipated benefits of that goodwill on the operating segment, having regard for the assets and liabilities acquired. The carrying value of goodwill in relation to the Protherics PLC acquisition has been allocated as relating to marketed products, £15.6m (2010: £15.6m), and in relation to royalties, £14.7m (2010: £14.7m). All goodwill, being £28.9m (2010: £nil), arising on the acquisition of Biocompatibles International plc has been allocated to that operating segment.

The impairment review required the estimation of the recoverable amount based on the value in use of the underlying cash generating unit. Near-term projections are based on the Group's approved three-year plan. Longer-term projections through to the end of an asset's estimated useful economic life are included due to the long-term nature of pharmaceutical product development and product life cycles.

The main assumptions on which the forecast cash flows were based include market share and gross margin for the marketed products, individual probability-adjusted cash flow models for all in-process R&D and an assessment of the net present value of future net royalty income for licensed patents.

Cash flow projections for all assets were included for a period equal to the estimated useful economic life of the assets. No terminal values were applied. All cash flows were discounted back to present value using a pre-tax discount rate of between 7% (2010: 7%) for net royalty income and 28% (2010: 24%) for in-process R&D, which takes into account the individual risk characteristics of each particular asset and related income stream.

For developed technology, near-term sales projections are based on past experience, adjusting for expected changes in future conditions, including those anticipated as a result of our knowledge of competitor activity and our assessment of future changes in the pharmaceutical industry. Long-term sales projections assume near-term growth of 2% per annum for the first eight years and then a 20% per annum reduction thereafter through to the end of the asset's estimated useful life.

For contractual relationships, the Group uses the same basic methodology as for developed technology but limits the projection period to the appropriate useful economic life of the contractual relationship.

For in-process R&D the key assumptions are the chance of product launch, market share and overall market size. Industry average statistics are used to assess the chance of product launch, taking into account the stage of development of the asset, the therapeutic area targeted and any known specific characteristics of the asset. Market share and overall market size are assessed by reference to independent industry market reports.

In assessing whether there has been an impairment, the net present value of future cash flows is compared to the carrying value in the accounts.

17 Intangible assets

	Developed technology £m	Contractual relationships £m	In-process research and development £m	Computer software £m	Patents £m	Repurchase of contractual rights £m	Total £m
Cost							
At 1 April 2009	120.3	36.1	7.7	0.5	14.7	–	179.3
Additions	–	–	–	–	1.2	–	1.2
Disposals	–	–	–	(0.5)	(2.8)	–	(3.3)
Currency movements	(2.9)	(0.9)	–	–	(0.1)		(3.9)
At 1 April 2010	117.4	35.2	7.7	–	13.0	–	173.3
Additions	–		–	–	0.4	9.7	10.1
Acquired with Biocompatibles	118.8	6.7	11.0	0.3	–	–	136.8
Disposals	–	–		–	(0.1)	–	(0.1)
Currency movements	(6.0)	(1.9)	0.1	–	(0.1)	(0.2)	(8.1)
At 31 March 2011	**230.2**	**40.0**	**18.8**	**0.3**	**13.2**	**9.5**	**312.0**
Amortisation							
At 1 April 2009	1.6	1.4	–	0.5	10.0	–	13.5
Provided during the year	4.5	3.8	–	–	0.8	–	9.1
Impairments	–	–	0.8	–	–	–	0.8
Writeback on disposals	–	–	–	(0.5)	(2.5)	–	(3.0)
Currency movements	0.2	0.2	–	–	(0.2)	–	0.2
At 1 April 2010	6.3	5.4	0.8	–	8.1	–	20.6
Provided during the year	6.2	3.8	0.1	–	0.6	9.6	20.3
Impairments	–	–	–	–	1.2	–	1.2
Writeback on disposals	–	–	–	–	(0.1)	–	(0.1)
Currency movements	(0.5)	(0.4)	–	–	–	(0.1)	(1.0)
At 31 March 2011	**12.0**	**8.8**	**0.9**	**–**	**9.8**	**9.5**	**41.0**
Net book value							
At 31 March 2011	**218.2**	**31.2**	**17.9**	**0.3**	**3.4**	**–**	**271.0**
At 1 April 2010	111.1	29.8	6.9	–	4.9	–	152.7
At 1 April 2009	118.7	34.7	7.7	–	4.7	–	165.8

Amortisation relating to acquired intangibles is shown on the face of the income statement within ‘amortisation of acquired intangibles’. All other amortisation and impairment are shown within ‘Other’ in ‘Operating expenses’.

17 Intangible assets continued

Developed technology

Developed technology relates to both the antidote assets acquired in Protherics PLC comprising principally of the rights to CroFab® and DigiFab®; and the bead assets acquired in Biocompatibles International plc, comprising principally of the rights to the DC/LC Beads. The carrying value of individually significant assets within developed technology is:

	31 March 2011 £m	31 March 2010 £m	Remaining amortisation period at 31 March 2011
CroFab®	**75.9**	83.8	22.7 years
DigiFab®	**24.5**	27.1	22.7 years
DC/LC Beads	**105.4**	–	14.8 years

Contractual relationships

Contractual relationships relate to contracts acquired in Protherics PLC and Biocompatibles International plc. The carrying value and remaining amortisation period of individually significant contracts is:

	31 March 2011 £m	31 March 2010 £m	Remaining amortisation period at 31 March 2011
Licence agreement with AstraZeneca for AZD9773 (CytoFab™)	**24.9**	28.6	11.7 years

Repurchase of contractual rights

On 27 August 2010 BTG signed an agreement with Nycomed US Inc. concerning the accelerated transition to BTG on 1 October 2010 of marketing rights to CroFab® and DigiFab®. Under the terms of the agreement, BTG purchased the exclusive rights to sell the products for which a consideration of £9.7m was paid in October 2010. The purchase price was capitalised and amortised over the six-month period ending 31 March 2011 representing the length of the exclusive period.

18 Property, plant and equipment

	Leasehold improvements £m	Freehold land and buildings £m	Plant and machinery, furniture and equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation					
At 1 April 2009	2.5	1.1	12.2	–	15.8
Additions	0.3	0.1	1.1	–	1.5
Disposals	(0.9)	–	(1.5)	–	(2.4)
Currency movements	0.5	–	1.0	–	1.5
At 1 April 2010	2.4	1.2	12.8	–	16.4
Additions	0.1	9.3	1.7	0.1	11.2
Acquired with Biocompatibles	0.3	–	1.2	3.1	4.6
Transfers	(1.6)	1.6	–	–	–
Disposals	–	–	(0.7)	–	(0.7)
Currency movements	–	0.8	0.3	0.1	1.2
At 31 March 2011	**1.2**	**12.9**	**15.3**	**3.3**	**32.7**
Depreciation					
At 1 April 2009	0.8	0.1	3.8	–	4.7
Provided during the year	0.3	0.2	2.0	–	2.5
Disposals	(0.7)	–	(1.5)	–	(2.2)
Currency movements	0.3	–	0.5	–	0.8
At 1 April 2010	0.7	0.3	4.8	–	5.8
Provided during the year	0.2	0.4	1.8	–	2.4
Transfers	(0.7)	0.7	–	–	–
Disposals	–	–	(0.7)	–	(0.7)
Currency movements	–	0.1	0.3	–	0.4
At 31 March 2011	**0.2**	**1.5**	**6.2**	**–**	**7.9**
Net book value at 31 March 2011	**1.0**	**11.4**	**9.1**	**3.3**	**24.8**
Net book value at 1 April 2010	1.7	0.9	8.0	–	10.6
Net book value at 1 April 2009	1.7	1.0	8.4	–	11.1

The net book value of plant and machinery and furniture, fixtures and equipment includes £1.8m (2010: £2.3m) in respect of assets held under finance lease and hire purchase agreements. Depreciation for the year on those assets was £0.3m (2010: £0.3m).

19 Investments in associates

Investments which represent a holding greater than 20% are as follows:

	Class of Share	Country	**31 March 2011 % held**	31 March 2010 % held
Mesophotonics Ltd	Preferred	UK	**29.3**	29.3
Senexis Ltd	Preferred	UK	**48.0**	48.0

The Group's share of post-acquisition total recognised losses in the above associates for the year ended 31 March 2011 was nil (2010: £0.3m). Each of these companies is engaged in research and development activities. The Group's share of post-acquisition total unrecognised losses in the above associates for the year ended 31 March 2011 was £0.5m (2010: nil).

	2011 £m	2010 £m
At 1 April	**–**	0.3
Share of losses	**–**	(0.3)
At 31 March	**–**	–

Summary financial information in respect of the Group's investments held in associates as at 31 March in each year under review is set out below:

	31 March 2011 £m	31 March 2010 £m
Total assets	**0.6**	0.3
Total liabilities	**(0.1)**	(0.1)
Net assets	**0.5**	0.2
Revenues	**–**	–
Losses for the year	**(0.9)**	(0.8)

20 Other investments

	2011 £m	2010 £m
At 1 April	**3.7**	3.2
Additions	**0.5**	0.5
Fair value movements	**(0.1)**	–
Impairment charge	**(1.5)**	–
Disposals and loan repayments	**–**	–
Currency movements	**0.1**	–
At 31 March	**2.7**	3.7

Other investments comprise non-current equity investments which are available-for-sale that are recorded at fair value at each balance sheet date. The fair value of unlisted investments is estimated to be the valuation following the latest round of equity funding. In the absence of specific market data the Group determines that cost is equal to fair value.

Where the fair value of an available-for-sale asset is impaired, the impairment charge is recognised in the income statement together with any amounts recycled from the fair value reserve (see note 24). These impairments initially arise from the prolonged or significant decline in the fair value of the equity investments below acquisition cost, subsequent to which any further decline in fair value is immediately taken to the income statement. £0.1m (2010: nil) has been recycled from the fair value reserve on the sale or impairment of investments.

21 Inventories

	31 March 2011 £m	31 March 2010 £m
Raw materials and consumables	**4.4**	2.7
Work in progress	**11.1**	6.6
Finished goods	**4.5**	0.3
	20.0	9.6

During the period a fair value adjustment of £1.7m (2010: £0.3m) was recognised through cost of sales (see note 38) leaving £2.1m of fair value uplift on the acquisition of Biocompatibles International plc remaining.

22 Trade and other receivables

	31 March 2011 £m	31 March 2010 £m
Due within one year		
Investment in associates classified as held for sale	**0.1**	0.1
Revenues receivable, net of provisions	**15.8**	15.5
Other debtors	**4.4**	2.1
Prepayments and accrued income	**12.4**	2.7
	32.7	20.4

Managing credit risk:
'Revenues receivable, net of provisions' represents accrued royalty income for the period to 31 March 2011 and certain other amounts receivable under licence agreements.

The ageing of these amounts was as follows:

	2011		2010	
	Gross £m	Provision £m	Gross £m	Provision £m
Not past due	**14.3**	**–**	14.8	–
0 to 30 days	**0.4**	**–**	0.2	–
31 to 90 days	**–**	**–**	0.2	–
> 90 days	**1.8**	**(0.7)**	1.2	(0.9)
Total	**16.5**	**(0.7)**	16.4	(0.9)

Provisions for bad debts of £0.7m (31 March 2010: £0.9m) have been made to write down the value of doubtful receivables to estimated recoverable amounts. The charge to income for the year to 31 March 2011 in respect of provisions for bad debts was nil (2010: £0.5m).

Investment in associates classified as held for sale
Mesophotonics Ltd is in a Members' Voluntary Liquidation (MVL). BTG has estimated the fair value of its investment in Mesophotonics to be £0.1m at 31 March 2011 (31 March 2010: £0.1m) based on the expectation of likely returns from the MVL.

22 Trade and other receivables continued

Summary financial information in respect of the Group's investments accounted for as investments in associates held for sale (see note 19) is set out below:

	31 March 2011 £m	31 March 2010 £m
Total assets	**0.1**	0.1
Total liabilities	**–**	–
Net assets	**0.1**	0.1
Revenues	**–**	–
Losses of associate for the year	**–**	–

BTG recognised no loss for the year ended 31 March 2011 (31 March 2010: nil).

23 Cash and cash equivalents and held to maturity financial assets

Cash and cash equivalents

	31 March 2011 £m	31 March 2010 £m
Bank balances	**63.7**	73.0
Call deposits	**–**	9.6
Cash and cash equivalents in statement of cash flows	**63.7**	82.6

Held to maturity financial assets

Cash deposits with a maturity of greater than three months are classified as held to maturity financial assets.

	31 March 2011 £m	31 March 2010 £m
Bank deposits	**10.2**	–

The effective interest rate on bank deposits was 2.4% and these deposits had an average maturity of seven months.

24 Equity

	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 April 2009	25.5	187.3	156.5	(0.1)	(156.6)	212.6
Profit for the year	–	–	–	–	11.3	11.3
Foreign exchange translation differences	–	–	–	(0.8)	–	(0.8)
Actuarial (loss) on pension liabilities	–	–	–		(12.0)	(12.0)
Total comprehensive income for the year	–	–	–	(0.8)	(0.7)	(1.5)
Transactions with owners:						
Issue of BTG plc ordinary shares	0.3	0.8	1.6	–	–	2.7
Movement in shares held by the Trust	–	–	–	–	0.3	0.3
Share-based payments	–	–	–	–	1.1	1.1
At 1 April 2010	25.8	188.1	158.1	(0.9)	(155.9)	215.2
Profit for the year	–	–	–	–	9.2	9.2
Foreign exchange translation differences	–	–	–	(2.7)	–	(2.7)
Actuarial gain on pension liabilities	–	–	–		3.9	3.9
Change in fair value of equity securities available-for-sale	–	–	–	(0.1)	–	(0.1)
Total comprehensive income for the year	–	–	–	(2.8)	13.1	10.3
Transactions with owners:						
Issue of BTG plc ordinary shares	–	0.1	–	–	–	0.1
Issued on acquisition of Biocompatibles International plc	6.9	–	159.7	–	–	166.6
Movement in shares held by the Trust	–	–	–	–	(0.5)	(0.5)
Share-based payments	–	–	–	–	0.6	0.6
At 31 March 2011	**32.7**	**188.2**	**317.8**	**(3.7)**	**(142.7)**	**392.3**

Other reserves are analysed as follows:

	Translation reserve £m	Fair value reserve £m	Total other reserves £m
At 1 April 2009	(0.3)	0.2	(0.1)
Total comprehensive income	(0.8)	–	(0.8)
At 1 April 2010	(1.1)	0.2	(0.9)
Total comprehensive income	(2.7)	(0.1)	(2.8)
At 31 March 2011	**(3.8)**	**0.1**	**(3.7)**

The merger reserve is used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under s612 and s613 of the Companies Act 2006. The balance on the merger reserve has arisen through the acquisitions of Biocompatibles International plc on 27 January 2011 (see note 38) and Protherics PLC on 4 December 2008 and includes directly attributable costs of issuing shares of £1.1m relating to the acquisition of Biocompatibles International plc, of which £0.6m had been paid before 31 March 2011.

24 Equity continued

The issued and fully paid share capital of the Company is shown below:

Ordinary shares of 10p each

	2011		2010	
	Number	£m	Number	£m
At 1 April	**257,637,576**	**25.8**	255,337,900	25.5
Issued for cash	**365,086**	**–**	1,006,668	0.1
Issued in consideration of Biocompatibles acquisition (note 38)	**68,723,244**	**6.9**	–	–
Issued in consideration of Protherics acquisition	**–**	**–**	1,293,008	0.2
At 31 March	**326,725,906**	**32.7**	257,637,576	25.8

The share issues in the year were as a result of the acquisition of the Biocompatibles Group and the exercise of share options. In the prior year 4,443,333 Protherics share options were exercised by current and former employees of the Protherics Group. These shares were exchanged in the ratio 0.291 BTG shares for each Protherics share, resulting in the issue of 1,293,008 BTG shares. The balance of 1,006,668 share options were exercised under BTG share option schemes. All shares rank *pari passu* in all respects with existing ordinary shares.

Share options and warrants
Details of outstanding share options are set out in note 30.

At 31 March 2011, there were unexercised warrants for 100,000 ordinary shares in Enact Pharma Limited, a subsidiary of Protherics which was acquired by the Company in December 2008. These warrants expire on 9 July 2012 and are exercisable at 30p per ordinary share of Enact Pharma Limited. Should these be exercised, the Company is entitled to repurchase these shares for consideration of 19,846 ordinary shares in BTG plc which creates an equivalent exercise price of 151.2p per ordinary BTG share.

25 Trade and other payables

	31 March 2011 £m	31 March 2010 £m
Amounts falling due within one year		
Trade payables	**8.2**	7.4
Accruals and deferred income	**38.8**	33.0
Other creditors	**2.8**	0.4
	49.8	40.8
Amounts falling due after more than one year		
Accruals and deferred income	**5.4**	8.4
Contingent value note (note 38)	**1.1**	–
Other creditors	**0.4**	0.1
	6.9	8.5

26 Derivative financial instruments

	31 March 2011 £m	31 March 2010 £m
Contracts with positive fair values:		
Forward foreign exchange contracts	**2.0**	–
Derivative instrument assets	**2.0**	–
Contracts with negative fair values:		
Forward foreign exchange contracts	**–**	0.8
Derivative instrument liabilities	**–**	0.8

The Group utilises foreign currency derivatives to hedge significant future transactions and cash flows.

At 31 March 2011 the Group had forward contracts to sell US$49m in the period to March 2012 at rates in the range £1:$1.44 to £1:$1.60 and €1m in the period to August 2011 at rates in the range of £1:€1.1982 to £1:€1.1987. The fair value of these derivative financial instruments was marked to market at 31 March 2011 at £2.0m.

At 31 March 2010 the Group had forward contracts to sell US$41m in the period to February 2011 at rates in the range £1:$1.49 to £1:$1.61. The fair value of these derivative financial instruments was marked to market at 31 March 2010 at £0.8m.

The fair value gain/loss for the year associated with these forward contracts was included within 'Financial income'.

A 5% weakening of the US dollar as at 31 March 2011, all other variables being unchanged, would result in an additional £1.0m gain within 'Financial income' in the income statement and a fair value asset of £3.0m within 'Derivative instruments' within current assets. A 5% strengthening of the US dollar would result in a £1.1m reduction within 'Financial income' and a decrease in 'Derivative instruments' to £0.9m within current assets. A 5% movement of the Euro as at 31 March 2011, all other variables being unchanged, would not result in a significant impact.

27 Borrowings

	31 March 2011 £m	31 March 2010 £m
Amounts falling due after more than one year	**2.9**	–

The carrying amounts of the Group's borrowings are denominated in Euros and are equal to fair value. Borrowings are unsecured and accrue interest annually at 5%. A repayment plan is in place such that the loan will be satisfied in full at the later of (i) 31 March 2018 or (ii) seven years post FDA approval of a specific long-term product.

The Group had no undrawn committed borrowing facilities at 31 March 2011 (2010: nil).

28 Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	31 March 2011 £m	31 March 2010 £m	**31 March 2011 £m**	31 March 2010 £m
Group				
Amounts payable under finance leases:				
Within one year	**0.4**	0.8	**0.4**	0.7
In the second to fifth years inclusive	**0.2**	0.6	**0.2**	0.6
	0.6	1.4	**0.6**	1.3
Less: future finance charges	**–**	(0.1)	**–**	–
Present value of lease obligations	**0.6**	1.3	**0.6**	1.3
Less: Amounts due for settlement within one year (shown within current liabilities)	**(0.4)**	(0.7)	**(0.4)**	(0.7)
Amount due for settlement after one year	**0.2**	0.6	**0.2**	0.6

The average lease term on inception is three to five years with an option to purchase equipment for a nominal amount at the conclusion of the lease agreement.

For the year ended 31 March 2011, the average effective borrowing rate for the Group was 8.4% (2010: 8.3%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates to their carrying amount.

The Group's lease obligations are denominated in Sterling and Australian dollars.

The obligations under hire purchase agreements for the Group are secured by a charge over the leased assets.

29 Retirement benefit plans

Defined benefit plan

For eligible UK employees the Group operates a funded pension plan providing benefits based on final pensionable emoluments. The plan was closed to new entrants as of 1 June 2004. The assets of the plan are held in a separate trustee administered fund. The plan has a history of granting increases to pensions in line with price inflation, and these increases are reflected in the measurement of the obligation.

The preliminary results of the formal valuation of the plan as at 31 March 2010 were updated to the accounting date by an independent qualified actuary in accordance with IAS19.

In July 2010, the government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index (RPI). The Group continues to value its pension fund liability on the basis of RPI. This reflects its view that its legal obligation is generally to pay RPI-linked increases and that it has a constructive obligation to pay RPI-linked increases in all other cases, given its past practice of treating all members the same.

The expected rate of return on assets for the financial year ending 31 March 2011 was 5.6% pa (2010: 5.6% pa). This rate is derived by taking the weighted average of the long-term expected rate of return on each of the asset classes that the plan was invested in at 31st March 2011, based on the plan's long-term investment strategy at that date.

The estimated amount of total employer contributions expected to be paid to the plan during the year ended 31 March 2012 is £3.8m (year ended 31 March 2011 actual: £4.0m). The estimate is based on agreed contributions at the balance sheet date. A revised schedule of contributions is being discussed with the plan trustees as part of the formal valuation of the plan as at 31 March 2010, which is due to be completed by 30 June 2011.

29 Retirement benefit plans continued

The following table sets out the key IAS19 assumptions used for the plan:

	31 March 2011	31 March 2010	31 March 2009
Retail price inflation	**3.7% p.a.**	3.9% p.a.	3.2% p.a.
Discount rate	**5.5% p.a.**	5.5% p.a.	6.9% p.a.
Pension increases in deferment – inflation	**3.7% p.a.**	3.9% p.a.	3.2% p.a.
Pension increases in payment – inflation	**3.7% p.a.**	3.9% p.a.	3.2% p.a.
Pension increases in payment – inflation capped at 2.5%	**2.3% p.a.**	2.4% p.a.	2.2% p.a.
General salary increases	**3.7% p.a.**	3.9% p.a.	4.2% p.a.
Life expectancy at age 60 of a male age 60 at the accounting date	**87.3**	88.2	88.1
Life expectancy at age 60 of a male age 40 at the accounting date	**88.8**	90.4	90.3

The amount included in the statement of financial position arising from the Group's obligations in respect of the plan is as follows:

	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m
Present value of defined benefit obligation	**(96.8)**	(98.3)	(74.9)
Fair value of plan assets	**94.8**	89.1	74.9
Net liability recognised in the statement of financial position	**(2.0)**	(9.2)	–

This amount is presented in the statement of financial position within non-current liabilities.

The amounts recognised in the income statement in respect of the plan are as follows:

	31 March 2011 £m	31 March 2010 £m
Employer's part of current service cost	**0.4**	0.2
Interest cost	**5.3**	5.0
Expected return on plan assets	**(5.0)**	(4.1)
Total expense included in income statement	**0.7**	1.1

The expense has been included in 'Operating expenses: other'.

The allocation of the plan's assets is as follows:

	31 March 2011 %	31 March 2010 %	31 March 2009 %
Equity instruments	**17**	19	25
Diversified growth funds	**14**	14	–
Debt instruments	**68**	66	70
Cash/net current assets	**1**	1	5
	100	100	100

29 Retirement benefit plans continued

Changes in the present value of the defined benefit obligation are as follows:

	2011 £m	2010 £m
Defined benefit obligation at 1 April	**98.3**	74.9
Employer part of current service cost	**0.4**	0.2
Interest cost	**5.3**	5.0
Contributions from plan members	**0.1**	0.1
Actuarial (gain)/loss on plan liabilities	**(3.0)**	22.4
Benefits paid	**(4.3)**	(4.3)
Defined benefit obligation at 31 March	**96.8**	98.3

Changes in the fair value of the plan assets are as follows:

	2011 £m	2010 £m
Fair value of plan assets at 1 April	**89.1**	74.9
Expected return on plan assets	**5.0**	4.1
Actuarial gains on plan assets	**0.9**	10.4
Contributions by the employer	**4.0**	3.9
Contributions by plan members	**0.1**	0.1
Benefits paid	**(4.3)**	(4.3)
Fair value of plan assets at 31 March	**94.8**	89.1

The actual return on the plan's assets over the year was a gain of £5.9m (2010: £14.5m).

The amount recognised outside profit and loss in other comprehensive income for 2011 is an actuarial gain of £3.9m (2010: actuarial loss of £12.0m). The cumulative amount recognised outside profit and loss as at 31 March 2011 is a loss of £7.8m (2010: £11.7m)

The history of experience adjustment is as follows:

	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m
Present value of defined benefit obligations	**(96.8)**	(98.3)	(74.9)	(81.8)	(80.6)
Fair value of plan assets	**94.8**	89.1	74.9	76.9	74.9
Deficit in the plan	**(2.0)**	(9.2)	–	(4.9)	(5.7)

	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
Experience adjustments on plan assets					
Amount of (gain)/loss (£m)	**(0.9)**	(10.4)	7.4	(0.4)	1.2
Percentage of plan assets (%)	**1**	12	10	–	2
Experience adjustments on plan liabilities					
Amount of loss/(gain) (£m)	**3.4**	(2.5)	–	6.3	–
Percentage of the present value of plan liabilities (%)	**4**	(3)	–	8	–

29 Retirement benefit plans continued

Defined contribution plans
The Group offers defined contribution pension plans for its UK, US, European and Australian employees. The total income statement charge in relation to these plans was £1.3m (2010: £1.6m).

The Group's defined contribution plans are operated by external providers. The only obligation of the Group with respect to these plans is to make the specified contributions.

30 Share-based payments

Share options
The Group makes awards under an equity-settled share option plan that entitles employees to purchase shares in the Company. In accordance with the rules of the plan, options are granted at the market price of the shares on the date of grant with a vesting period of generally three years. They may only be exercised upon the attainment of certain performance criteria. If the performance criteria are not met by the date specified at the time of grant, the options do not vest and will lapse. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest unless the conditions under which they leave are such that they are considered to be a 'good leaver'. In this case their options remain exercisable for a limited period of time. For further details of current awards, see the remuneration report on pages 57 to 68.

Option pricing
For the purposes of valuing options to arrive at the share-based compensation charge, a binomial lattice option pricing model has been used. The assumptions used in the model are as follows.

	31 March 2011	31 March 2010
Risk-free interest rate	**1.4% to 5.8%**	2.0% to 5.8%
Dividend yield	**Nil**	Nil
Volatility	**41% to 73%**	41% to 73%
Expected lives of options and awards granted under:		
– Share option plan	**5 years**	5 years
– Sharesave plan	**3.25 years**	3.25 years
– Stock purchase plan	**2.25 years**	2.25 years
– Restricted share awards	**2 to 3 years**	2 to 3 years
– Performance share plan	**2 to 3 years**	2 to 3 years
– Deferred share bonus plan	**3 years**	3 years
Weighted average fair value for share option plan grants in the year	**119.8p**	58.9p
Weighted average fair value for sharesave grants in the year	**86.6p**	78.0p
Weighted average fair value for stock purchase plan grants in the year	**65.6p**	61.7p
Weighted average fair value for performance share awards in the year	**119.8p**	50.9p
Weighted average fair value for deferred share bonus awards in the year	**181.4p**	174.0p

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options, restricted or performance shares), adjusted for any expected changes to future volatility due to publicly-available information.

Share options are granted under a service condition, a non-market condition and a market condition. Service and non-market conditions are not taken into account in calculating the fair value measurement of the services received.

Performance shares are awarded under a service condition, a non-market condition and a market condition. Service and non-market conditions are not taken into account in calculating the fair value measurement of the services received.

30 Share-based payments continued

Awards of share options and performance share awards made in 2009, 2010 and 2011 have a market condition based on a TSR measure using the FTSE 250 companies excluding investment trusts, companies in the financial services sector (banking, insurance, broking, fund management, etc.) and companies in the consumer discretionary sector (non-food retail, media, leisure, gambling). Earlier share options and performance shares used the FTSE SmallCap (excluding Investment Trusts) index. If the Company's share price at least matches the performance of the relevant index over the vesting period, the market-based performance condition will be considered to have been achieved. The fair value of an award of shares under the share option and performance share plans have been adjusted to take into account this market-based performance condition using a pricing model based on expectations about volatility and the correlation of share price returns in the relevant index and which incorporates into the valuation the inter-dependency between share price and index performance. This adjustment increases the fair value relative to the share price at the date of grant. See the remuneration report on pages 57 to 68 for further information.

Restricted shares are awarded to certain management employees under a service condition and a non-market performance condition. There are no market conditions related to the restricted share awards.

Details of options and awards under the Group's share plans are shown in the tables below.

	2011		2010	
	Number of share options (000)	**Weighted average exercise price (p)**	Number of share options (000)	Weighted average exercise price (p)
Share options				
Outstanding at 1 April	**597**	**157.3**	882	128.0
Granted during year	**358**	**201.3**	379	179.3
Lapsed during year	**(6)**	**106.3**	(108)	146.6
Exercised during year	**(22)**	**106.3**	(556)	127.8
Outstanding at 31 March	**927**	**175.8**	597	157.3
Exercisable at 31 March	**190**	**120.9**	218	119.0
Sharesave plan				
Outstanding at 1 April	**301**	**134.9**	202	106.7
Granted during year	**90**	**146.7**	217	146.7
Lapsed during year	**(26)**	**145.6**	(30)	114.1
Exercised during year	**(56)**	**94.2**	(88)	106.4
Outstanding at 31 March	**309**	**144.9**	301	134.9
Exercisable at 31 March	**–**	**–**	–	–
Stock purchase plan				
Outstanding at 1 April	**30**	**162.2**	30	106.1
Granted during year	**30**	**173.2**	22	154.3
Lapsed during year	**(11)**	**175.1**	(3)	77.6
Exercised during year	**–**	**–**	(19)	77.6
Outstanding at 31 March	**49**	**166.0**	30	162.2
Exercisable at 31 March	**–**	**–**	–	–

30 Share-based payments continued

Options outstanding at 31 March 2011

	Number (000)	Weighted exercise price (p)	Latest exercise date year ended 31 March
Share options granted in year ended 31 March			
2002	2	776.5	2012
2005	133	102.3	2015
2007	55	143.5	2017
2010	379	179.3	2020
2011	358	201.3	2021
	927		
Sharesave plan options granted in year ended 31 March			
2009	32	129.2	2012
2010	191	146.7	2013
2011	86	146.7	2014
	309		
Stock purchase plan options granted in year ended 31 March			
2010	19	154.3	2012
2011	30	173.2	2013
	49		

Restricted share awards

The Company established a restricted share scheme for the purpose of making awards to selected members of senior management below Board level. The vesting period is either two or three years. Awards are forfeited if the employee leaves the Group before the awards vest, unless the conditions under which they leave are such that they are considered to be a 'good leaver'; in which case their award is released following their departure. For further details see the remuneration report on pages 57 to 68.

Movement in the number of restricted shares awarded is as follows.

	2011 Number of share awards (000)	2010 Number of share awards (000)
Outstanding at 1 April	**200**	240
Exercised during year	**(183)**	(40)
Lapsed during year	**(17)**	–
Outstanding at 31 March	**–**	200
Exercisable at 31 March	**–**	–

Performance share awards

Following approval of the Performance Share Plan by shareholders at the 2006 AGM, the Company has made awards to the executive directors and other employees with a vesting period of two or three years. Awards are forfeited if the director or other employee leaves the Group before the awards vest, unless the conditions under which they leave are such that they are considered to be a 'good leaver'; in which case their award is released following their departure. If the Remuneration Committee decide that a departing beneficiary of an award is a 'good leaver' so their award may be released early, the award will only be released subject to the achievement of the performance conditions set out at the time of the granting of the award and may be subject to proration for time, at the discretion of the Committee. For further details see the remuneration report on pages 57 to 68.

30 Share-based payments continued

Movement in the number of performance share awards is as follows.

	2011 Number of share awards (000)	2010 Number of share awards (000)
Outstanding at 1 April	**1,971**	1,446
Granted during year	**945**	1,188
Lapsed during year	**(11)**	(119)
Exercised during year	**(284)**	(544)
Outstanding at 31 March	**2,621**	1,971
Exercisable at 31 March	**–**	–

Deferred share bonus plan

The Company established a deferred share bonus plan. The executive directors, members of the Leadership Team and certain other senior staff have part of their annual bonus awarded in shares. The shares will vest on the third anniversary of the grant date. Awards are forfeited if the employee leaves the Group before the awards vest, unless the conditions under which they leave are such that they are considered to be a 'good leaver'; in which case their award is released following their departure, though it may be pro-rated for time at the discretion of the Remuneration Committee. For further details see the remuneration report on pages 57 to 68.

Movement in the number of deferred bonus shares awarded is as follows.

	2011 Number of share awards (000)	2010 Number of share awards (000)
Outstanding at 1 April	**380**	300
Granted during year	**378**	196
Exercised during year	**(167)**	(116)
Outstanding at 31 March	**591**	380
Exercisable at 31 March	**–**	–

The Biocompatibles Group had a number of share schemes prior to the date of acquisition by the Company. With the exception of the Share Incentive Plan (SIP), all share schemes ceased just prior to that date and share awards under the various schemes vested and/or exercised to the extent to which performance conditions had been achieved. No grants or awards remained outstanding at the date of acquisition.

Shares invested in the SIP were exchanged for BTG shares in the same ratio as other shareholders received in the acquisition: 1.6733 BTG shares for each Biocompatibles share plus 10p cash. Whilst no further contributions may be invested in the SIP post the date of acquisition, shares already held in the SIP may remain until the date of closure of the Plan in 2016.

As at 31 March 2011 788,297 ordinary shares in BTG plc, issued and subscribed for by the Biocompatibles International plc Share Incentive Plan Trust, had not vested unconditionally.

31 BTG Employee Share Trust

The Group includes an employee share trust, the BTG Employee Share Trust (the Trust), which was established in Guernsey in 1992. It holds shares for the general benefit of all employees who may eventually become legally entitled to them. At 31 March 2011 the Trust held 1,308,793 (31 March 2010: 1,113,613) shares in BTG plc and a further 12,596 (31 March 2010: 12,596) shares in Torotrak plc. The Trust may distribute these shares to employees of the Group on the recommendation of the Company. These distributions may be as a result of awards under the Restricted Share Scheme or the Deferred Share Bonus Plan.

At 31 March 2011 the Trust has 590,635 shares set aside under the Deferred Share Bonus Plan.

32 Provisions

	2011			2010		
	Leases £m	**Reorganisation £m**	**Total £m**	Leases £m	Reorganisation £m	Total £m
At 1 April	**1.1**	**0.7**	**1.8**	4.3	4.0	8.3
Acquired with Biocompatibles	**1.3**	**–**	**1.3**	–	–	–
Provisions utilised during year	**(0.4)**	**(0.9)**	**(1.3)**	(1.6)	(3.2)	(4.8)
Provisions made during year	**–**	**1.2**	**1.2**	–	0.5	0.5
Provisions released during year	**–**	**–**	**–**	(1.5)	(0.3)	(1.8)
Difference on exchange	**–**	**–**	**–**	(0.1)	(0.3)	(0.4)
At 31 March	**2.0**	**1.0**	**3.0**	1.1	0.7	1.8
Balance due within one year	**0.8**	**1.0**	**1.8**	0.4	0.7	1.1
Balance due after more than one year	**1.2**	**–**	**1.2**	0.7	–	0.7
	2.0	**1.0**	**3.0**	1.1	0.7	1.8

Lease provisions relate to onerous leases and represent the net present value of future obligations and where relevant, not covered by income from tenants (see 2(m)).

The provision for reorganisation costs arose as a result of the Group's rationalisation activities following the acquisition of Biocompatibles International plc on 27 January 2011 and Protherics PLC on 4 December 2008 (note 38). The provision principally comprises redundancy and other site closure costs.

33 Financial risk management objectives and policies

Overview
The Group has exposure to credit, liquidity and market risks from its use of financial instruments. This note sets out the Group's key policies and processes for managing these risks.

Credit risk
Credit risk is the risk of financial loss to the Group if a licensee fails to meet its contractual obligations or a customer fails to pay for goods and services received. The Group's primary objective with respect to credit risk is to minimise the risk of default by licensees or customers.

A substantial element of the Group's revenue is derived from royalties which are only payable if a licensee is generating income from sales of licensed products. In such instances the Group's exposure to credit risk is considered to be inherently relatively low, although is influenced by the unique characteristics of individual licensees. The Group's policy is to provide against bad debts on a specific licence by licence basis.

Following the transition from a distribution agreement to direct sales during the year, the majority of the marketed product revenues are currently generated from sales to several key wholesalers in the US. Management maintains regular communication with the customers and monitors both sales to and payments from customers to minimise the credit risk exposure.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has limited debt facilities in the form of borrowings (see note 27) and assets held under finance leases (note 28) but has substantial cash balances to fund its operations.

The Group's policy is to place surplus cash resources on short-term fixed interest deposits, to the extent that cash flow can be reasonably predicted. Term deposits are denominated in Sterling with institutions rated as A or higher by both Moody's and Standard & Poor's.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings in financial instruments. The Group has little exposure to interest rate risk other than that returns on short-term fixed interest deposits will vary with movements in underlying bank interest rates. The Group's principal market risk exposure is to movements in foreign exchange rates.

Foreign currency risk
The Group has several overseas subsidiary undertakings, the revenues and the expenses of which are denominated in local currencies being US dollars, Euros and Australian dollars. As a result the Group's Sterling income statement, balance sheet and cash flows may be affected by movements in Sterling exchange rates with these currencies. The Group's primary objective with respect to managing foreign exchange risk is to provide certainty over the value of future cash flows.

A significant element of the Group's revenue is denominated in US dollars with the remainder split between Sterling, Euros, Yen and other currencies. The majority of the Group's operating expenses are in Sterling along with smaller elements in US dollars, Euros and Australian dollars. Where possible, anticipated foreign currency operating expenses are matched to foreign currency revenues. The excess exposure over and above this natural hedge, to the extent that cash flows are predictable, is managed using forward contracts (see note 26).

33 Financial risk management objectives and policies continued

Sensitivity analysis

A 5% weakening of the US dollar at 31 March 2011 would have resulted in the following increases/(decreases) in equity and profit or loss:

	31 March 2011 £m	31 March 2010 £m
Profit or loss	**(5.7)**	1.3
Equity	**0.9**	(5.2)

Interest rate risk

The Group seeks to mitigate partially against increased interest rates whilst maintaining a degree of flexibility to benefit from decreasing rates of interest by holding a mix of fixed and floating rate financial liabilities. The Group seeks to maximise the amount of interest income from its cash balances by using a variety of short-term, fixed high-interest deposit and money-market accounts. The Group does not consider the impact of interest rate risk to be material to its results or operations and accordingly no sensitivity analysis is shown.

Market price risk

It is, on occasion, deemed appropriate to take equity stakes in early-stage companies utilising the Group's technology as part of the overall licensing arrangement and small loans may be granted to these companies to further technology development. These investments will be realised at an appropriate time in the development cycle. Regular reports are made to the Board on the status of investments. These investments form part of the Group's overall technology portfolio and do not materially affect liquidity.

Capital management

The Group defines the capital that it manages as the Group's total equity. The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern;
- To provide an adequate return to investors based on the level of risk undertaken;
- To have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefits for inventive sources and returns to investors; and
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Group believes it has sufficient ongoing cash and cash equivalents to meet its stated capital management objectives. The Group's capital and equity ratio are shown in the table below.

	31 March 2011 £m	31 March 2010 £m
Total equity – capital and reserves attributable to BTG shareholders	**392.3**	215.2
Total assets	**488.5**	311.0
Equity ratio	**80.3%**	69.2%

The Group is not subject to regulatory capital adequacy requirements as known in the financial services industry.

33 Financial risk management objectives and policies continued

Financial instruments

The Group's financial instruments comprise cash, short-term deposits, foreign currency forward contracts, contingent value notes and various items such as trade debtors and creditors which arise directly from operations. In addition, a number of debt and equity investments, both quoted and unquoted as shown in notes 19 and 20, are held in technology-based companies along with borrowings including obligations under finance leases.

Fair values

The fair values of the Group's financial assets and liabilities, together with the carrying values shown in the statement of financial position, are as follows:

	Designated at fair value £m	Forward contracts at fair value £m	Available for sale £m	Amortised cost £m	**Total carrying value £m**	**Fair value £m**
31 March 2010						
Cash and cash equivalents	–	–	–	82.6	**82.6**	**82.6**
Forward contracts	–	(0.8)	–	–	**(0.8)**	**(0.8)**
Other investments	3.7	–	–	–	**3.7**	**3.7**
Trade and other receivables	–	–	0.1	20.3	**20.4**	**20.4**
Trade and other payables	–	–	–	(49.3)	**(49.3)**	**(49.3)**
31 March 2011						
Cash and cash equivalents	–	–	–	63.7	**63.7**	**63.7**
Held to maturity financial assets	–	–	–	10.2	**10.2**	**10.2**
Forward contracts	–	2.0	–	–	**2.0**	**2.0**
Other investments	2.7	–	–	–	**2.7**	**2.7**
Trade and other receivables	–	–	0.1	32.6	**32.7**	**32.7**
Trade and other payables	(1.1)	–	–	(55.6)	**(56.7)**	**(56.7)**
Borrowings (note 27)	–	–	–	(2.9)	**(2.9)**	**(2.9)**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 – quoted prices in active markets for identical assets and liabilities;
Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities;
Level 3 – unobservable inputs.

33 Financial risk management objectives and policies continued

Fair value hierarchy of financial assets and liabilities

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2010				
Financial assets recognised at fair value				
Investments	–	3.7	–	3.7
Financial liabilities recognised at fair value				
Forward contracts	–	(0.8)	–	(0.8)
At 31 March 2011				
Financial assets recognised at fair value				
Investments	–	2.7	–	2.7
Forward contracts	–	2.0	–	2.0
Financial liabilities recognised at fair value				
Contingent value notes	–	–	(1.1)	(1.1)

Level 1 – financial assets and liabilities represent forward foreign exchange contracts to sell US dollars and Euros which are marked-to-market at each balance sheet date.
Level 2 – financial assets represent other investments held at fair value (see note 20).
Level 3 – financial liabilities represent the contingent loan note upon acquisition of Biocompatibles International plc (see note 38). No gain or loss for the year related to this liability has been recognised in the consolidated income statement.

Contractual maturity analysis of financial liabilities

	31 March 2011 £m	31 March 2010 £m
Forward foreign exchange contracts that mature within:		
0 to 3 months	**0.8**	–
3 to 6 months	**0.4**	(0.8)
6 to 12 months	**0.8**	–
	2.0	(0.8)

Net gains and losses on financial assets and liabilities

Foreign exchange losses of £2.0m (2010: losses of £4.0m) were recognised within operating profit in relation to settlement of trade receivables and payables.

The Group recognised a fair value gain of £2.7m (2010: gain of £6.5m) relating to forward foreign exchange contracts within 'Financial income'.

Fair value gains of £0.1m (2010: nil) were recycled from the fair value reserve within equity in relation to investments impaired during the year.

Estimation of fair values

The following summarises the methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Other investments

These comprise both listed and unlisted investments, available-for-sale. The figure recorded in the statement of financial position (note 20) is the best estimate of fair value.

33 Financial risk management objectives and policies continued

Borrowings and finance leases

The fair values of such balances are estimated by discounting the future cash flows at the market rate.

Trade receivables, trade payables and cash and cash equivalents

Trade payables and receivables have a remaining life of less than one year so their value recorded in the statement of financial position is considered to be a fair approximation of fair value. The contingent value notes are fair valued at each reporting period.

34 Operating leases

Total non-cancellable operating lease rentals are due in the following periods:

	31 March 2011		31 March 2010	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Within one year	**1.7**	**–**	0.7	–
Between two and five years	**5.3**	**–**	1.3	–
Greater than five years	**1.1**	**–**	–	–
	8.1	**–**	2.0	–

Operating lease payments represent rentals payable for certain of its office properties, vehicles, plant and equipment under non-cancellable operating lease agreements.

The Group leases a number of offices and facilities in the UK, the US, Germany, and Australia. These leases have terms of up to eight years.

The leases contain options to extend for further periods. In the event of renewal, the lease contracts contain market review clauses. None of the property leases provide the Group with an option to purchase the leased asset at the expiry of the lease period.

The Group has entered into sub-leasing agreements with third-parties for space in some of its UK and US offices. Rental of £0.3m was receivable under these agreements in the year ended 31 March 2011 (2010: £0.3m). No minimum future lease payments will be received over the respective terms of the sub-leases (2010: £0.2m).

35 Other financial commitments

The Group has entered into agreements with a number of early-stage companies and venture capital funds. At 31 March 2011 the Group is committed to invest £0.4m under these agreements (2010: £0.7m).

As with any business whose core assets are intellectual property, the Group will from time-to-time resort to litigation or threats of litigation, or other legal processes, to defend its rights. Litigation costs are regarded as a cost of doing business and will vary from year-to-year. In the current year the Group incurred £4.0m in litigation costs (2010: £1.4m).

The Company has entered into an agreement to guarantee payments under the lease of a US subsidiary undertaking.

The Company has provided a guarantee to certain subsidiary undertakings in respect of the BTG Pension Fund to make payments to the Fund up to a maximum amount equal to the lowest non-negative amount which, when added to the assets of the Fund would result in the Fund being at least 105% funded on the date on which any liability arose, calculated on the basis set out in section 179 of the Pensions Act 2004, were a valuation to be conducted at that date.

36 Related parties

Identity of related parties
The Group has a related-party relationship with its subsidiary undertakings (see note 2(b)), its associates (see note 2(b)) and its directors. During the year the Group invested a further £0.5m in its investments (see note 20). No dividends were received from associates in the years ended 31 March 2011 or 2010.

In relation to the related-party relationship identified on page 49 concerning Giles Kerr, payments made by BTG to Oxford University and Isis Innovations Ltd under the relevant licence agreements were £1.8m during the year ended 31 March 2011. There were no amounts still outstanding and payable by BTG under these agreements as at 31 March 2011.

In relation to the related-party relationship identified on page 49 concerning Melanie Lee, payments made by BTG to Cancer Research Technology Ltd under the relevant licence agreements were £0.1m during the year ended 31 March 2011. There were no amounts still outstanding and payable by BTG under these agreements as at 31 March 2011.

Key management personnel are considered to be the directors and their remuneration is disclosed within the remuneration report on pages 57 to 68.

Dr Peter Geigle, although not considered key management personnel, is a director of CellMed AG. Dr. Geigle is also an executive board member of Geigle Verwaltungs GmbH, a company that leases the premises to CellMed AG. The rental cost for the two months since acquisition was £0.1m. This arrangement is on an arms-length basis at a commercial rate. There were no amounts outstanding as at 31 March 2011 under this agreement.

37 Group entities

The significant subsidiary undertakings of BTG plc at 31 March 2011 are all wholly owned, incorporated in the UK and registered in England and Wales, unless shown otherwise. All subsidiary undertakings operate in their country of incorporation and are consolidated in the Group's financial statements.

	Class of capital	Principal activity
BTG International (Holdings) Ltd*	Ordinary	Investment in IPR management companies
Provensis Ltd*	Ordinary	Development and commercialisation of IPR
BTG International Ltd	Ordinary	Development, management and commercialisation of IPR
BTG Employee Share Schemes Ltd Guernsey	Ordinary	Trustee company
BTG Investment (Holdings) Ltd	Ordinary	Investment in IPR management companies
BTG International Inc. Delaware US	Common stock and paid in capital	Development, management and commercialisation of IPR
British Technology Group Inter-Corporate Licensing Ltd**	Ordinary	Development, management and commercialisation of IPR
BTG Management Services Ltd (formerly Protherics Limited)*	Ordinary	Investment and management of group companies
Protherics Medicines Development Limited	Ordinary	Development, management and commercialisation of IPR
Protherics Inc. Delaware US	Common stock	Research, development, manufacture and sale of pharmaceutical products and potential drugs
Enact Pharma Limited	Ordinary	Development, management and commercialisation of IPR
Protherics UK Limited	Ordinary	Research, development, manufacture and sale of pharmaceutical products and potential drugs
BTG Australasia Pty Limited (formerly Protherics Australasia Pty Limited) Australia	Ordinary	Manufacture and sale of pharmaceutical products and potential drugs
Protherics Utah Inc. Tennessee US	Common stock	Research, development, manufacture and sale of pharmaceutical products and potential drugs
Protherics Salt Lake City Inc. Utah US	Common stock	Development, management and commercialisation of IPR
Biocompatibles International Limited*	Ordinary	Investment and management of group companies
Biocompatibles UK Limited	Ordinary	Commercialisation of Bead products
Biopolymerix Inc. Delaware US	Common stock	Research and development
Biocompatibles Inc. Delaware US	Common stock	Commercialisation of Brachytherapy products
CellMed AG Germany	No par value shares	Research and development

*Indicates direct subsidiary of BTG plc.
**British Technology Group Inter-Corporate Licensing Ltd incorporates a US branch.

38 Acquisition of business operations

On 27 January 2011, the Company acquired 100% of the issued share capital of Biocompatibles International plc (subsequently re-registered as Biocompatibles International Limited), a listed UK Group. Biocompatibles International Limited is the parent company of the Biocompatibles Group, a leading international medical technology company in the field of drug device combination products. The acquisition provides an excellent opportunity to combine Biocompatibles' fast growing specialist products with BTG's existing commercial infrastructure. The enhanced resources of the enlarged Group will allow accelerated investment in Biocompatibles' products and development pipeline. This transaction has been accounted for by the purchase method of accounting.

The acquisition was settled by the issuance of 68,723,244 new BTG plc ordinary share of 10 pence each plus either 10 pence in cash for each Biocompatibles share or a contingent value note.

Equity settled consideration
The fair value of equity settled consideration was £167.7m, based on the share price of £2.44 in existence at the time of the acquisition.

Cash consideration
Shareholders owning 30,349,200 Biocompatibles shares (73.9% of all Biocompatibles shares acquired) opted to receive 10 pence in cash per share, resulting in a cash payment of £3.0m.

Contingent value vote (CVN)
As an alternative to 10 pence cash consideration, Biocompatibles shareholders could elect to receive an entitlement to a contingent right to payment of the Sterling equivalent of €0.56 per Biocompatibles share in cash by participating in the value that may potentially be achieved from part of Biocompatibles' programme to develop the GLP-1 Compound which it has partnered with AstraZeneca. Shareholders owning 10,722,465 Biocompatibles shares (26.1% of all Biocompatibles shares acquired) opted to receive the CVN. The CVN will be paid in full if, prior to 31 December 2012, either:

- AstraZeneca exercises an option to license the GLP-1 compound on agreed terms; or
- BTG, otherwise than on the agreed terms of the option, enters into any other licence, sale or other disposal or other arrangement with similar effect with AstraZeneca with respect to the rights of the GLP-1 compound

The liability will be paid in full or not at all. The fair value of each CVN has been assessed at acquisition date as being 10 pence per Biocompatibles share, based on probability adjusted net present value calculations of AstraZeneca exercising its option to license the GLP-1 compound. This fair value is also supported by the alternative offer to shareholders of 10 pence in cash. The fair value of the CVN is shown in note 25 to the accounts at £1.1m.

Subsequent to the year end the Company received notification from AstraZeneca of its termination of the option agreement (note 39). The carrying value of the CVN will be adjusted during the financial year ended 31 March 2012.

38 Acquisition of business operations continued

Net assets acquired

Details of the net assets acquired arising from the acquisition of Biocompatibles International plc are set out in the table below:

	Book value £m	Fair value adjustment £m	Fair value £m
Non-current assets:			
Intangible assets	9.5	127.3	136.8
Goodwill	2.8	(2.8)	–
Property, plant & equipment	4.6	–	4.6
Current assets:			
Inventories	0.9	3.8	4.7
Trade and other receivables	6.0	–	6.0
Cash and cash equivalents	17.4	–	17.4
Held to maturity financial assets	10.2	–	10.2
Current liabilities:			
Trade and other payables	(3.7)	–	(3.7)
Deferred income	(9.3)	0.3	(9.0)
Non-current liabilities:			
Trade and other payables	(0.9)	–	(0.9)
Borrowings	(2.8)	–	(2.8)
Deferred tax liabilities	(1.1)	(19.3)	(20.4)
Total assets acquired	33.6	109.3	142.9
Goodwill			28.9
Total consideration			171.8
Settled by equity			(167.7)
Contingent consideration			(1.1)
Cash paid			3.0
Cash and cash equivalents included in undertaking acquired			17.4
Cash consideration paid			(3.0)
Net cash inflow per cash flow statement			14.4
Directly attributable costs settled*			(3.6)
Net cash inflow arising on acquisition			10.8

*Total costs relating to the acquisition were £4.1m, of which £3.6m had been paid by 31 March 2011. The remainder was settled in April 2011. Of the total costs of £4.1m, £3.0m have been included in 'Acquisition and reorganisation costs' in the consolidated income statement (note 7) and £1.1m have been debited to merger reserve (note 24).

The goodwill arising on acquisition resulted from assets which could not be recognised separately including early-stage pipeline products and a highly skilled workforce. The fair value adjustments are considered final.

The main elements of the significant fair value adjustments are described below:

— Intangible assets in respect of the marketed products, in-process research and development and contractual relationships in accordance with IFRS3 Revised – Business Combinations;
— Revaluation of inventory reflecting profit accrued up to the stage of production at the time of the transaction; and
— Deferred tax liabilities in relation to the acquired intangible assets over and above £21.2m of deferred tax assets in recognition of acquired accumulated tax losses.

38 Acquisition of business operations continued

Profit forecast
The following profit forecast statement was made in the acquisition Prospectus: "The BTG Directors and the Biocompatibles Directors are of the view that Biocompatibles will achieve adjusted operating profit for the year ending 31 December 2010 of not less than £2.0 million." In accordance with Listing Rule 9.2.18 the Company can confirm that the actual adjusted operating profit achieved by Biocompatibles for the year ending 31 December 2010 was £2.2m.

Revenue and profit impact of the acquisition
As disclosed in the consolidated income statement, the Biocompatibles Group contributed revenue of £6.0m and operating profit of £0.7m in the period since acquisition.

If the acquisition had taken place on 1 April 2010, the first day of the reporting period under review, revenue and profit after tax of the combined entity would have been £139.3m and £11.8m respectively.

39 Post balance sheet event

On 13 May 2011 the Group announced that they had been informed by AstraZeneca that AstraZeneca had terminated the development and option agreement relating to CM-3, a GLP-1 analogue being developed by BTG's CellMed subsidiary for use in type 2 diabetes and other indications.

As part of BTG's acquisition of Biocompatibles in January 2011, 487 Biocompatibles shareholders elected to receive in aggregate 10,722,465 contingent value notes (CVNs) providing a right to a payment of the Sterling equivalent of €0.56 per Biocompatibles share if AstraZeneca exercised its option to enter a licence agreement relating to CM-3 on the pre-agreed terms. As a result of AstraZeneca's decision to terminate the development and option agreement, it is highly unlikely that any payment will be made in relation to the CVNs. The payment obligation would only now arise if BTG enters into another form of licence, sale or other disposal of the GLP-1 asset to AstraZeneca prior to 31 December 2012. In light of AstraZeneca's decision to terminate the development and option agreement, the BTG Board does not believe that there is any realistic possibility that this will occur.

At 31 March 2011 the carrying value of the intangible asset associated with the GLP-1 asset was £8.8m. In addition, the Group had recognised a liability of £1.1m in relation to the CVNs. Accordingly, in its consolidated income statement for the year ended 31 March 2012, the Group will recognise an impairment charge of £8.8m and will derecognise the £1.1m liability in respect of the CVNs.

Company statement of financial position

	Note	31 March 2011 £m	31 March 2010 £m
ASSETS			
Non-current assets			
Investment in subsidiaries	5	**364.4**	192.0
		364.4	192.0
Current assets			
Trade and other receivables	6	**218.4**	231.9
Cash and cash equivalents		**–**	0.2
		218.4	232.1
Total assets		**582.8**	424.1
EQUITY			
Share capital	7	**32.7**	25.8
Share premium account	7	**188.2**	188.1
Merger reserve	7	**317.8**	158.1
Retained earnings	7	**39.8**	42.5
Total equity attributable to equity holders of the parent	7	**578.5**	414.5
LIABILITIES			
Non-current liabilities			
Trade and other payables	8	**1.1**	–
		1.1	–
Current liabilities			
Trade and other payables	8	**2.3**	9.5
Taxation		**0.1**	0.1
Provisions		**0.8**	–
		3.2	9.6
Total liabilities		**4.3**	9.6
Total equity and liabilities		**582.8**	424.1

The financial statements were approved by the Board on 24 May 2011 and were signed on its behalf by:

Dr Louise Makin **Rolf Soderstrom**
Chief Executive Officer Chief Financial Officer Registered No: 2670500

Company statement of cash flows
for the year ended 31 March 2011

	31 March 2011 £m	31 March 2010 £m
(Loss)/profit after tax for the year	**(2.8)**	0.4
Decrease in trade and other receivables	**10.5**	6.3
(Decrease) in trade and other payables	**(6.1)**	(9.9)
Increase in provisions	**0.8**	–
Costs of acquisition recognised in equity	**(0.6)**	–
Other items	**0.9**	1.0
Net cash inflow/(outflow) from operating activities	**2.7**	(2.2)
Investing activities		
Costs relating to acquisition of Biocompatibles	**(3.0)**	–
Net cash (outflow) from investing activities	**(3.0)**	–
Cash flows from financing activities		
Proceeds of share issue	**0.1**	2.4
Costs relating to acquisition of Protherics	**–**	(0.2)
Net cash from financing activities	**0.1**	2.2
Increase in cash and cash equivalents	**(0.2)**	–
Cash and cash equivalents at start of year	**0.2**	0.2
Cash and cash equivalents at end of year	**–**	0.2

Company statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 April 2009	25.5	187.3	156.5	40.7	410.0
Profit for the year	–	–	–	0.4	0.4
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the year	–	–	–	0.4	0.4
Transactions with owners:					
Issue of BTG plc ordinary shares	0.3	0.8	1.6	–	2.7
Movement in shares held by the Trust	–	–	–	0.3	0.3
Share-based payments	–	–	–	1.1	1.1
At 31 March 2010	25.8	188.1	158.1	42.5	414.5

	Share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 April 2010	25.8	188.1	158.1	42.5	414.5
Profit for the year	–	–	–	(2.8)	(2.8)
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(2.8)	(2.8)
Transactions with owners:					
Issue of BTG plc ordinary shares	–	0.1	–	–	0.1
Issued on acquisition of Biocompatibles*	6.9	–	159.7	–	166.6
Movement in shares held by Trust	–	–	–	(0.5)	(0.5)
Share-based payments	–	–	–	0.6	0.6
At 31 March 2011	**32.7**	**188.2**	**317.8**	**39.8**	**578.5**

The notes on pages 131 to 134 form part of these financial statements.

*See note 38 to the Group financial statements.

1 Accounting policies

The accounting policies adopted in the preparation of these Company financial statements are the same as those set out in note 2 to the Group financial statements with the addition of the following:

Investments
Investments in subsidiaries are stated at cost less provision for impairment.

Share-based payments
The Company has elected to apply IFRS2 to all share-based awards and options granted post 7 November 2002 that had not vested by 1 January 2005. The carrying amount of an investment in a subsidiary is increased to the extent that share-based payments relate to employees of that subsidiary. Share-based payment expenses relating to employees of the Company are expensed within the income statement.

These policies have been applied consistently to the periods presented.

The functional currency of the Company is Sterling and all values are rounded to the nearest £0.1m except where otherwise indicated.

2 Profit for the period

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own income statement for the year. The loss after tax of the Company amounted to £2.8m (2010: profit of £0.4m).

The auditor's remuneration for audit services to the Company, payable to KPMG Audit Plc, was £123,000 (2010: £85,000). In addition, the Company made payments for services relating to due diligence related to corporate finance transactions entered into or proposed to be entered into by the Company of £380,000 and additional payments of £64,000 (2010: £212,000) in relation to other services, being the review of the interim accounts, other accounting advice and advice on employee benefit matters.

3 Staff costs

The employees are based in the UK.

Disclosures of individual directors remuneration and associated costs required by the Companies Act 2006 and specified by the Financial Services Authority are on pages 57 to 68 within the remuneration report and form part of these audited accounts.

The employees of the Company are members of the Group pension plans as detailed in note 29 of the Group financial statements. The Company receives a charge based upon the employer contribution to the Group's defined benefit pension plan. No additional contributions are paid by the Company.

4 Dividend

The directors do not propose to declare a dividend for the year (2010: nil).

5 Investment in subsidiary undertakings

	£m
Cost	
At 1 April 2009	189.6
Acquisition of Protherics PLC	2.0
Share-based payments	0.4
At 1 April 2010	192.0
Acquisition of Biocompatibles International plc	171.8
Share-based payments	0.6
At 31 March 2011	**364.4**

A list of the Company's principal subsidiary undertakings is shown in note 37 to the Group financial statements. The acquisition of Biocompatibles International plc is outlined in note 38 of the Group financial statements.

6 Trade and other receivables

	31 March 2011 £m	31 March 2010 £m
Due within one year		
Amounts owed by subsidiary undertakings	**218.4**	231.9
	218.4	231.9

7 Capital and reserves

	Share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2009	25.5	187.3	156.5	40.7	410.0
Profit for year	–	–	–	0.4	0.4
Total comprehensive income for the year	–	–	–	0.4	0.4
Movement in shares held by Trust	–	–	–	0.3	0.3
Issued on acquisition of Protherics*	0.2	–	1.6	–	1.8
Other share capital issued	0.1	0.8	–	–	0.9
Share-based payments	–	–	–	1.1	1.1
At 31 March 2010	25.8	188.1	158.1	42.5	414.5
(Loss) for year	–	–	–	(2.8)	(2.8)
Total comprehensive income gains for the year	–	–	–	(2.8)	(2.8)
Movement in shares held by Trust	–	–	–	(0.5)	(0.5)
Issued on acquisition of Biocompatibles*	6.9	–	159.7	–	166.6
Other share capital issued	–	0.1	–	–	0.1
Share-based payments	–	–	–	0.6	0.6
At 31 March 2011	**32.7**	**188.2**	**317.8**	**39.8**	**578.5**

*See note 38 to the Group financial statements.

7 Capital and reserves continued

The merger reserve is used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under s612 and s613 of the Companies Act 2006. The balance on the merger reserve has arisen through:

1 The acquisition of Protherics PLC on 4 December 2008 and includes directly attributable costs of issuing the shares of £0.4m.

2 The acquisition of Biocompatibles International plc on 27 January 2011 and includes directly attributable costs of issuing of shares of £1.1m.

Details of Company share capital are disclosed in note 24 to the Group financial statements. Details of share options granted by the Company are set out in note 30 to the Group financial statements. Details of shares in the Company held by subsidiaries are shown in note 31 to the Group financial statements.

8 Trade and other payables

	31 March 2011 £m	31 March 2010 £m
Amounts falling due within one year		
Amounts owed to subsidiary undertakings	**–**	7.9
Accruals and deferred income	**2.3**	1.6
	2.3	9.5
Amounts falling due after more than one year		
Contingent value notes	**1.1**	–

Amounts owing to subsidiary undertakings are repayable on demand. The directors consider the fair value to be equal to the book value.

9 Financial assets and liabilities

	Designated at fair value £m	Amortised cost £m	Total carrying value £m	Fair value £m
31 March 2010				
Cash and cash equivalents	–	0.2	0.2	0.2
Trade and other receivables	–	231.9	231.9	231.9
Trade and other payables	–	(9.6)	(9.6)	(9.6)
31 March 2011				
Cash and cash equivalents	**–**	**–**	**–**	**–**
Trade and other receivables	**–**	**218.4**	**218.4**	**218.4**
Trade and other payables	**(1.1)**	**(2.3)**	**(3.4)**	**(3.4)**

Financial liabilities classified as designated at fair value comprise the contingent value notes details of which are disclosed in note 33 of the Group financial statements.

9 Financial assets and liabilities continued

Credit risk
The Company's credit risk is the risk that one of its subsidiaries is unable to repay intercompany amounts owing. The recoverability of the Company's intercompany receivable is considered at each balance sheet date.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company does not hold significant cash balances as Group cash is managed centrally within its subsidiaries. Accordingly the Company is funded by its subsidiaries as its liabilities fall due.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings in financial instruments. As holding company of the BTG Group, the Company does not have significant exposure to movements in market prices and accordingly no additional disclosure is provided.

Capital management
Details of the Company's objectives with respect to managing capital are disclosed in note 33 to the Group financial statements.

10 Guarantees and contingent liabilities

The Company has entered into an agreement to guarantee payments under the lease of its US subsidiary undertaking.

The Company has provided a guarantee to certain subsidiary undertakings in respect of the BTG Pension Fund up to a maximum amount equal to the lowest non-negative amount which, when added to the assets of the Fund, would result in the Fund being at least 105% funded on the date on which any liability arose, calculated on the basis set out in section 179 of the Pensions Act 2004, were a valuation to be conducted as at that date.

The Company has also provided a guarantee to the same subsidiary undertakings for a maximum amount of £12.7m being the deficit repair contributions agreed with the Trustees of the Scheme following the finalisation of the last actuarial valuation. The Guarantee reduces as payments are made and expires on 31 January 2013.

11 Related-party transactions

The Company has a related-party relationship with its subsidiary undertakings and its directors.

In relation to the related-party relationship identified on page 49 concerning Giles Kerr, payments made by BTG to Oxford University and Isis Innovations Ltd under the relevant licence agreements were £1.8m during the year ended 31 March 2011. There are no amounts still outstanding and payable by BTG under these agreements as at 31 March 2011.

In relation to the related-party relationship identified on page 49 concerning Melanie Lee, payments made by BTG to Cancer Research Technology Ltd under the relevant licence agreements were £0.1m during the year ended 31 March 2011. There are no amounts still outstanding and payable by BTG under these agreements as at 31 March 2011.

Key management personnel are considered to be the directors and their remuneration is disclosed within the remuneration report on pages 57 to 68.

Appendix 1 – Unaudited pro-forma consolidated income statement
For the year ended 31 March 2011

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Royalties	**70.0**	64.2
Marketed products	**35.4**	34.3
Biocompatibles	**33.9**	26.9
Revenue	**139.3**	125.4
Cost of sales: royalties	**(22.4)**	(17.6)
Cost of sales: marketed products	**(8.8)**	(15.2)
Biocompatibles	**(7.7)**	(5.6)
Gross profit	**100.4**	87.0
Operating expenses: foreign exchange (losses)	**(1.7)**	(4.0)
Operating expense : other	**(52.4)**	(39.4)
Operating expenses: total	**(54.1)**	(43.4)
Research and development	**(41.8)**	(40.5)
Profit on disposal of assets and investments	**1.5**	1.1
Amounts written off associates and investments	**(1.4)**	–
Operating profit	**4.6**	4.2
Financial income	**3.5**	7.7
Financial expense	**(0.2)**	(0.3)
Profit before tax	**7.9**	11.6
Tax	**(0.4)**	1.8
Profit for the year	**7.5**	13.4
Basic earnings per share	**2.3p**	4.2p
Diluted earnings per share	**2.3p**	4.4p

All activity arose from continuing operations.

Basis of preparation

The financial information contained in this appendix is pro-forma and does not constitute full statutory accounts within the meaning of section 435 of the Companies Act 2006. The information has been extracted from the records of BTG plc and Biocompatibles International plc, combining the results of both companies for the years ended 31 March 2011 and 31 March 2010. The information has been prepared using the accounting policies and basis of preparation set out in note 2 to the Group financial statements, except that, for comparative purposes, the following items have been excluded from the pro-forma information:

- Amortisation of business combination intangibles;
- Effect of fair value adjustments on inventory arising from IFRS3 – Business Combinations;
- One-off transaction related expenses and reorganisation costs;
- Impact of deferred tax asset and liabilities recognised upon acquired intangible assets;
- Impact of US tax-free reorganisation, which resulted in a one-off deferred tax asset of £18.6m being recognised in the year ended 31 March 2011.

Five-year financial record
for the year ended 31 March

Consolidated income statement

	2011[1] £m	2010 £m	2009[2] £m	2008 £m	2007 £m
Revenue	**111.4**	98.5	84.8	75.0	45.7
Cost of sales	**(34.1)**	(32.8)	(37.1)	(32.1)	(18.9)
Gross profit	**77.3**	65.7	47.7	42.9	26.8
Operating and administrative expenses	**(45.3)**	(29.3)	(20.6)	(13.8)	(18.9)
Restructuring costs	**(3.8)**	0.7	(10.9)	(8.1)	1.0
Operating expenses	**(49.1)**	(28.6)	(31.5)	(21.9)	(17.9)
Research and development	**(32.1)**	(26.7)	(21.2)	(12.2)	(9.0)
Share of results of associates	**–**	(0.3)	(0.4)	(0.7)	(0.7)
Research and development expenses	**(32.1)**	(27.0)	(21.6)	(12.9)	(9.7)
Profit on disposal of assets and investments	**1.5**	1.1	2.6	0.4	2.7
Amounts written off associates and investments	**(1.4)**	–	(3.4)	–	(1.0)
Amortisation and impairment of business combination intangibles	**(10.0)**	(9.1)	(3.0)	–	–
Operating (loss)/profit	**(13.8)**	2.1	(9.2)	8.5	0.9
Net financial income	**3.0**	7.0	(2.1)	2.2	1.7
(Loss)/profit before tax	**(10.8)**	9.1	(11.3)	10.7	2.6
Tax	**20.0**	2.2	(1.8)	(1.9)	(0.2)
Profit/(loss) after tax for the year	**9.2**	11.3	(13.1)	8.8	2.4
Basic and diluted earnings/(loss) per share	**3.4p**	4.4p	(7.1p)	5.9p	1.6p

Gross profit

	2011[1] £m	2010 £m	2009[2] £m	2008 £m	2007 £m
Royalties from launched products	**43.2**	38.0	32.1	24.9	24.2
Income from new agreements and milestone payments	**4.5**	8.6	11.0	18.0	2.6
Gross profit from marketed products	**26.6**	19.1	4.6	–	–
Gross profit from Biocompatibles	**3.0**	–	–	–	–
Gross profit	**77.3**	65.7	47.7	42.9	26.8

1 The results for the year ended 31 March 2011 include the results of Biocompatibles from the date of acquisition, being 27 January 2011.
2 The results for the year ended 31 March 2009 include the results of Protherics from the date of acquisition, being 4 December 2008.

Consolidated statement of financial position

	2011[1] £m	2010 £m	2009[2] £m	2008 £m	2007 £m
Goodwill	**59.2**	30.3	30.0	–	–
Intangible assets	**271.0**	152.7	165.8	6.8	7.6
Property, plant and equipment	**24.8**	10.6	11.1	0.8	8.7
Investment in associates	**–**	–	0.3	0.7	1.2
Other investments	**2.7**	3.7	3.2	5.8	5.0
Deferred tax asset	**0.9**	0.6	0.7	–	–
Biological assets	**0.3**	–	–	–	–
Total non-current assets	**358.9**	197.9	211.1	14.1	22.5
Current assets	**129.6**	113.1	118.3	72.2	53.5
Total assets	**488.5**	311.0	329.4	86.3	76.0
Equity					
Share capital	**32.7**	25.8	25.5	15.1	15.1
Share premium account	**188.2**	188.1	187.3	187.0	187.0
Merger reserve	**317.8**	158.1	156.5		
Reserves	**(3.7)**	(0.9)	(0.1)	(1.4)	(0.9)
Retained earnings	**(142.7)**	(155.9)	(156.6)	(145.5)	(153.9)
Total equity	**392.3**	215.2	212.6	55.2	47.3
Total non-current liabilities	**43.9**	52.4	47.1	6.9	6.8
Total current liabilities	**52.3**	43.4	69.7	24.2	21.9
Total liabilities	**96.2**	95.8	116.8	31.1	28.7
Total equity and liabilities	**488.5**	311.0	329.4	86.3	76.0

1 The statement of financial position for 31 March 2011 includes the assets and liabilities acquired from Biocompatibles during the year.
2 The statement of financial position for 31 March 2009 includes the assets and liabilities acquired from Protherics during the year.

Consolidated cash flow statement

	2011[1] £m	2010 £m	2009[2] £m	2008 £m	2007 £m
Net cash (used in)/from operating activities	**(12.0)**	5.8	(1.8)	13.4	(3.1)
Net cash (used in)/from investing activities	**(5.5)**	(2.6)	21.8	0.8	(5.4)
Net cash from financing activities	**(0.6)**	1.4	(0.1)	–	0.8
(Decrease)/increase in cash and cash equivalents	**(18.1)**	4.6	19.9	14.2	(7.7)
Effect of exchange rate fluctuations on cash held	**(0.8)**	(0.2)	1.3	(0.2)	(0.3)
Cash and cash equivalents at start of year	**82.6**	78.2	57.0	43.0	51.0
Cash and cash equivalents at end of year	**63.7**	82.6	78.2	57.0	43.0

1 The results for the year ended 31 March 2011 include the results of Biocompatibles from the date of acquisition, being 27 January 2011.
2 The results for the year ended 31 March 2009 include the results of Protherics from the date of acquisition, being 4 December 2008.

Financial calendar

Circulation of Annual Report for the year ended 31 March 2011	20 June 2011
Annual General Meeting	20 July 2011
Announcement of interim results for the six months ended 30 September 2011	November 2011
Preliminary announcement of annual results for the year ended 31 March 2012	May 2012

Shareholders

At 31 March 2011 there were 12,080 holders of ordinary shares in the Company. Their shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares	Percentage of ordinary shares
1 to 5,000	11,148	92.3	7,651,914	2.3
5,001 to 50,000	677	5.6	9,972,464	3.1
50,001 to 100,000	82	0.7	5,859,618	1.8
100,001 to 500,000	97	0.8	24,160,376	7.4
Over 500,000	76	0.6	279,081,534	85.4
Total	12,080	100.0	326,725,906	100.0

Shareholders are further analysed as follows:

Type of owner	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares	Percentage of ordinary shares
Bank and nominee companies	1,159	9.6	299,969,861	91.8
Private shareholders	10,832	89.6	18,915,616	5.8
Limited companies	80	0.7	3,453,588	1.1
BTG Employee Share Trust	1	–	1,308,793	0.4
Insurance companies and pension funds	8	0.1	3,078,048	0.9
	12,080	100.0	326,725,906	100.0

Mutual funds and other institutions, and private shareholders holding their shares within PEPs and ISAs, are included within ‘Bank and nominee companies’.

Capita share dealing services

A quick and easy share dealing service is available from Capita Registrars, to either buy or sell more shares. An online and telephone dealing facility is available providing shareholders with an easy-to-access and simple-to-use service. For further information on this service, or to buy and sell shares, please contact: www.capitadeal.com (online dealing) or +44 (0) 871 664 0446 (telephone dealing – calls cost 10p per minute plus network extras). Full terms, conditions and risks apply and are available on request or by visiting www.capitadeal.com.

This is not a recommendation to buy or sell shares. The price of shares can go down as well as up, and you are not guaranteed to get back the amount that you originally invested.

Shareholder change of address

The Company offers the facility, in conjunction with Capita Registrars, our Registrars, to conduct a number of routine matters via the web including the ability to notify any change of address. If you are a shareholder and are either unable or would prefer not to use this facility, please do not send the notification to the Company’s registered office. Please write direct to Capita Registrars, at their address shown opposite, where the register is held.

BTG plc

Registered office and head office
5 Fleet Place
London
EC4M 7RD
Tel: +44 (0)20 7575 0000
Fax: +44 (0)20 7575 0010
info@btgplc.com
www.btgplc.com

Registered number 2670500

Advisers

Stockbrokers
JP Morgan Cazenove
10 Aldermanbury
London EC2V 7RF
Tel: +44 (0)20 7742 4000

Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 2DB
Tel: +44 (0)20 7545 8000

Auditors
KPMG Audit Plc
15 Canada Square
London E14 5GL
Tel: +44 (0)20 7311 1000

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Callers from the UK: Tel +44 (0)871 664 0300
(please note that calls cost 10p per minute,
plus network extras).
Callers from outside the UK:
Tel: +44 (0)208 639 3399

Cautionary statement

This Annual Report contains certain forward-looking statements with respect to BTG's business, performance and prospects. Statements and other information included in this report that are not historical facts are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates' and 'potential', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current expectations and involve risk and uncertainty because they relate to events and depend upon circumstances which may or may not occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Current principal risks and uncertainties are described on pages 25 to 29 of this report. Any of the assumptions underlying these forward-looking statements could prove inaccurate or incorrect and therefore any results contemplated in the forward-looking statements may not actually be achieved. BTG undertakes no obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

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