

Business review

STRATEGY

CORPORATE STRATEGY

Oxford BioMedica's corporate strategy is to create a profitable biopharmaceutical company by building a robust pipeline of gene-based products and bringing these to the market. The existing pipeline is based on in-house or collaborative research and development efforts. However, the Company may also acquire or in-license products that complement this pipeline. The Company has focused its efforts in the areas of oncology and neurotherapy, and its current product candidates address diseases with unmet medical need that potentially offer substantial commercial return. Part of the strategy pursued by the management team is to ensure that the Company's value is not dependent on a single candidate but, rather, derives from a balanced portfolio of candidates in complimentary areas. In 2006, the Company added a tenth development candidate to its portfolio, which targets an inherited ocular disorder and is being developed in collaboration with a US charity.

Oxford BioMedica also pursues other development opportunities, where these can be achieved through collaboration and external financing. In addition, the Company has an active licensing strategy that provides third-party access to its intellectual property for non-exclusive research use or exclusive access for specific applications. In 2006, the number of licensed users of the Company's gene delivery technologies increased to nine, with the addition of GlaxoSmithKline. To maximise sales of the LentiVector technology as a research tool, Oxford BioMedica has established an exclusive alliance with Sigma-Aldrich, which is one of the world's leading providers of reagent kits to the research market.

The Company's broad commercial strategy is to secure development and commercialisation partners for its in-house therapeutic product candidates following proof of principle in clinical studies. However, in such agreements, the Company may seek to retain the rights or options to commercialise its products in certain territories. Similarly, the Company may decide to invest in later stage clinical trials if the management concludes that it has adequate resources and that the risk is acceptable in relation to the potential increased return for shareholders. The Company would consider licensing its products at the preclinical stage only if sufficiently attractive terms could be negotiated. For all its commercial agreements, the Company seeks to maximise shareholder value by balancing near-term resource requirements and long term benefit from product commercialisation. The key commercial goal for the Company in the near term is to secure a global partner for TroVax to bring the product to market.

FINANCIAL STRATEGY

Oxford BioMedica's financial strategy is designed to enable the Company to achieve its goal of becoming a profitable biopharmaceutical company. The management believes that sustainable profitability, as opposed to profitability through upfront and milestone payments, can be achieved within 12 months of the registration of its first therapeutic product, which could be in 2009, following successful completion of the Phase III trial of TroVax in renal cancer. The Company maintains a principle of having sufficient cash resources for a minimum operational period of 12 months.

The Company has successfully applied for and been awarded a number of grants over the years from sources such as the UK Department of Trade and Industry, the UK Department of Health and the European Commission. As a small innovative company, it qualifies for research and development tax credits, which have resulted in cash payments from the UK tax authorities.

The Company benefits from other sources of direct and indirect development funding. In 2006, cancer organisations in both the USA and UK confirmed their support to conduct further specific clinical trials with TroVax. This support is provided without obligations and Oxford BioMedica will retain all commercial rights to the product. Similarly, the neurotherapy portfolio has received sponsorship from a number of disease-focused charitable organisations, through direct funding of preclinical studies or grants to the Company. In 2006, the Foundation Fighting Blindness expanded its relationship with Oxford BioMedica by signing a research agreement to develop a portfolio of gene therapy products for the treatment of eye diseases.

The Company's licensing and collaboration strategy provides near-term revenue and the prospect for substantial future payments linked to development and commercialisation success. Some existing agreements provide annual fees and others include milestone payments and royalties or a share of income. The Directors anticipate a substantial increase in revenue in future years from the Company's licensing and collaboration activities.

“The clinical data that have been generated to date place TroVax amongst the leading cancer immunotherapy candidates in development worldwide”

ONCOLOGY

The oncology pipeline at Oxford BioMedica exploits the expertise of the Company and its partners in tumour biology, immunology and product development. The oncology pipeline comprises three major product candidates as well as a product for treating cancer in companion animals. These novel cancer therapies are designed to deliver a combination of improved efficacy and safety over existing treatments.

In 2006, Oxford BioMedica achieved key milestones in the development of TroVax, including the start of the Phase III TRIST trial in renal cancer, which could support product registration in 2009. During the year, the Company also received further commitment from QUASAR, a UK-based clinical trials network, which is expected to conduct a Phase III trial in colorectal cancer. In parallel, discussions with major pharmaceutical companies for a global commercial licence for TroVax have reached an advanced stage. The Phase II trial of MetXia in pancreatic cancer is progressing more slowly than anticipated and the Company has implemented changes that are designed to accelerate patient recruitment. The Company's partners, Wyeth and Intervet, made progress with their respective cancer programmes during 2006.

TROVAX®

Over 180 patients have now been treated with TroVax in ten clinical trials in colorectal, renal and prostate cancer. Four Phase II trials in renal cancer and a Phase II trial in prostate cancer are ongoing and continue to show encouraging results. About 100 patients have been enrolled in these five trials to date.

In November 2006, the Company achieved an important milestone by starting its planned Phase III trial, TRIST (TroVax Renal Immunotherapy Survival Trial) in renal cancer. More than 40 clinical centres in the

USA, European Union and Eastern Europe are now actively recruiting patients. In January 2007, the UK National Cancer Research Network (NCRN), which provides the UK National Health Service (NHS) with the infrastructure to support cancer clinical trials, agreed to adopt the trial. The NCRN's adoption of TRIST means that multiple NHS centres are able to participate in the study, which should facilitate rapid recruitment of patients in the UK. In reaching its decision to adopt the TRIST trial, the Renal Cancer Clinical Studies Group of the NCRN evaluated TroVax and the trial design and concluded that the product offers potential improvement in patient care for the NHS.

In May 2006, Oxford BioMedica secured an agreement with the US Food and Drug Administration (FDA) on a Special Protocol Assessment (SPA) for the TRIST trial. The written agreement from the FDA specifies the design, conduct, analysis and endpoints of the trial. With an SPA in place, the trial can be used to support an efficacy claim in a regulatory submission for product registration in the USA.

The TRIST study is designed to evaluate whether TroVax immunotherapy, in combination with first-line standard-of-care therapies, prolongs the survival of patients with locally advanced or metastatic clear cell renal adenocarcinoma. The study is randomised, double-blinded and placebo-controlled. Approximately 700 patients will be recruited. The primary endpoint is improvement of survival and secondary endpoints include progression-free survival, tumour response rates and quality of life scores.

The Company has appointed an independent Data Safety Monitoring Board (DSMB) to assess the safety and potential efficacy of TroVax at various time points during the trial. The first DSMB review is anticipated in the second half of 2007. The duration of the trial will be determined by the number of survival events (deaths) in the

study group, and the trial is expected to reach a conclusion in 2008-09. If the trial is successful, TroVax could be submitted for product registration in 2009.

In December 2006, Oxford BioMedica received a positive opinion from the Committee for Orphan Medicinal Products (COMP) recommending orphan drug designation for TroVax for the treatment of patients with renal cancer in the European Union (EU). The COMP is part of the European Medicines Agency (EMA). The European Commission adopted this opinion in January 2007, which ensures a ten-year marketing exclusivity for TroVax within the EU. In addition, Oxford BioMedica and its prospective partner will benefit from a simplified, accelerated and cost-effective approval procedure under the consultative guidance of the EMA. The Company plans to request the equivalent orphan drug status in the USA.

During the year, data from the Phase II trials of TroVax were presented at a number of key oncology meetings. The Annual Meeting of the American Society of Clinical Oncology in June 2006 was an important forum for TroVax. Oxford BioMedica's scientists along with external clinical investigators from cancer centres in the USA and from Cancer Research UK presented data from five Phase II studies of TroVax in colorectal and renal cancer.

Ongoing analysis of two completed Phase II trials in 36 patients, in which TroVax was evaluated as a first-line treatment for metastatic colorectal cancer alongside chemotherapy, showed that 95% of patients who received both TroVax and at least six cycles of chemotherapy experienced disease control based on unaudited tumour response data. Encouragingly, 60% showed complete or partial tumour responses (tumour shrinkage). In the analysis of patients that received at least two TroVax

TROVAX®

Key Highlights for 2006

- **Licensing discussions at advanced stage**
- **International Phase III TRIST trial for renal cancer in progress**
- **FDA Special Protocol Assessment for Phase III TRIST trial**
- **Positive recommendation for orphan drug designation in EU for renal cancer**
- **Encouraging results from Phase II trials in renal cancer, colorectal cancer and prostate cancer**
- **UK clinical network, QUASAR, committed to Phase III trial in colorectal cancer**

Key Objectives for 2007

- **Finalise global licensing deal with a major pharmaceutical company**
- **Report further results from Phase II trials in renal cancer**
- **Report results from the Phase II trial in prostate cancer**
- **First review by Data Safety Monitoring Board of Phase III TRIST trial in renal cancer**
- **US National Cancer Institute to initiate Phase II trial in breast cancer**
- **QUASAR to initiate Phase III trial in colorectal cancer**

immunisations and were therefore able to raise an anti-tumour immune response, TroVax extended median survival to 80 weeks from 72 weeks based on historical controls for chemotherapy alone. Similarly, TroVax improved survival at twelve months from 70% to 90%. Importantly, as at 21 August 2006, nine patients (25%) remained alive with an average follow-up time of almost two and a half years. This level of survival is higher than expected and may indicate that TroVax is providing a long term therapeutic effect after treatment has halted. As reported previously in 2005, the primary endpoints of safety and anti-tumour immunological responses were achieved in both trials and the results confirmed the excellent safety profile of TroVax with no serious adverse events being attributed to the product.

Data from Cancer Research UK's Phase II trial of TroVax as an adjuvant therapy in patients with colorectal cancer undergoing surgery for liver metastases showed that 95% of patients produced an anti-tumour immune response. Hence, the primary endpoint of immunological response was achieved. Again, TroVax was well tolerated in all

patients with no serious adverse events associated with the product. Of the 20 patients recruited, 16 had successful surgical resection of their colorectal cancer liver metastases. All evaluable resected tumours were positive for the 5T4 antigen, the target for TroVax, confirming previously reported data on the broad distribution of 5T4 on solid tumours.

In November 2006, a principal clinical investigator, who is conducting two Phase II trials of TroVax alongside standard therapy in renal cancer and a Phase II trial in prostate cancer, presented encouraging data from all three trials at the EORTC-NCI-AACR Symposium on "Molecular Targets and Cancer Therapeutics". In renal cancer, data were available from 33 patients, who had been heavily pre-treated and were at an advanced stage of disease prior to entering the trials. TroVax was well tolerated and showed promising anti-tumour activity. One patient had a complete response, i.e. the tumour mass was completely eradicated. Two patients developed a partial response. A further 15 patients showed disease stabilisation for periods exceeding three months, including one patient that has been

stable for more than 46 weeks. It is still too early to assess the endpoint of median survival in the two studies, as more than 50% of patients remain alive. The immunological analysis is ongoing. However, a preliminary assessment showed that TroVax induced 5T4-specific antibody responses in 96% of evaluable patients. Importantly, in patients with clear cell renal cancer, there was a statistically significant correlation ($p=0.028$) between the immune response to 5T4 and a reduction in patients' tumour burden. This is particularly encouraging since it supports the rationale that the 5T4-specific immune response induced by TroVax has therapeutic benefit. Clear cell is the most common subtype of renal cancer and is the patient group for the ongoing Phase III TRIST study.

The Phase II trial in prostate cancer is evaluating TroVax as a single agent and in combination with standard therapy. The trial has enrolled 27 patients with hormone-refractory prostate cancer. An initial assessment showed that TroVax has been well tolerated and that all patients have developed a strong 5T4-specific antibody response.



“More than 40 clinical centres in the USA, European Union and Eastern Europe are now actively recruiting patients into TRIST”



METXIA®

Key Highlight for 2006

- **Three dose levels of cyclophosphamide alongside MetXia successfully evaluated in second stage of Phase II trial in pancreatic cancer**

Key Objectives for 2007

- **Report results from stage two of the Phase II trial in pancreatic cancer**
- **Define the optimal dose of cyclophosphamide from stage two of the Phase II trial**
- **Start discussions with principal investigators and regulatory authorities to determine the route to registration in pancreatic cancer**
- **Progress commercial discussions**

In 2006, Oxford BioMedica advanced its discussions with the QUASAR group regarding a Phase III trial of TroVax in early-stage (Stage II/III) colorectal cancer. QUASAR is a UK-based clinical trials network that is funded from a variety of sources including the UK Medical Research Council and the Department of Health. QUASAR completed its evaluation of TroVax and the proposed trial in May 2006. QUASAR has confirmed its commitment to conduct the Phase III trial and is seeking financial support from the appropriate agencies.

The proposed QUASAR trial will be randomised and placebo-controlled and is expected to enrol approximately 3,000 patients. The study is designed to support product registration in Europe and the USA, and is expected to start before the end of 2007.

The US clinical trials co-operative group, Southwest Oncology Group (SWOG), has made progress towards the start of a Phase II trial with TroVax in breast cancer, which will be sponsored by the US National Cancer Institute. In the first half of 2006, the proposed trial was submitted to the FDA and no issues were raised. In August 2006, the study was submitted to the US Recombinant DNA Advisory Committee and was similarly accepted, which means that the trial can commence. Approximately 120 patients will be enrolled in the trial. It has taken longer than expected for SWOG to finalise its trial plan and submit to the authorities but, based on recent discussions, Oxford BioMedica expects SWOG to commence patient recruitment during 2007.

Oxford BioMedica remains committed to securing a suitable commercial partner for TroVax. The clinical data that have been generated to date place TroVax amongst the leading cancer immunotherapy candidates

in development worldwide. The value of the programme continues to increase as more data emerge and with the start of Phase III development. Discussions with our lead prospective partners for a global licence to TroVax are at an advanced stage, and the Company expects these to reach a successful conclusion.

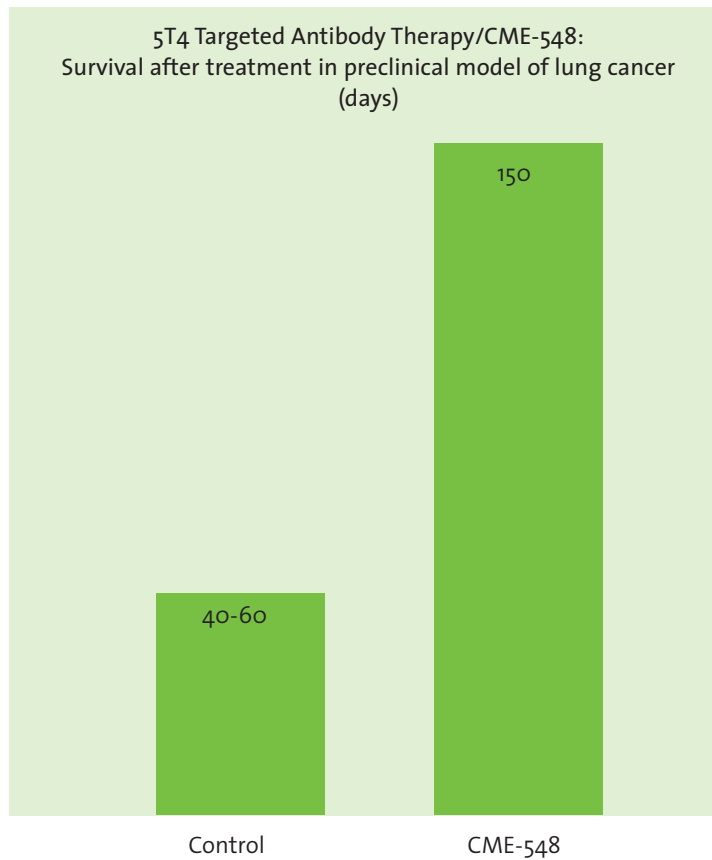
METXIA®

MetXia is potentially useful in the treatment of a number of solid tumours and their metastases, particularly those where cyclophosphamide is commonly used as a treatment. The Company is targeting its development efforts for MetXia on the treatment of pancreatic cancer through direct administration of both MetXia and cyclophosphamide to the tumour. A two-stage Phase II trial is ongoing in patients with non-resectable pancreatic tumours.

The Company successfully completed the first stage of the trial in 2005. Patient recruitment continues for the second stage of the trial using a fixed, optimal dose of MetXia and increasing doses of cyclophosphamide in up to 25 patients, at two centres in the UK. The objective of the second stage is to determine the optimal dose of cyclophosphamide and to evaluate clinical benefit in addition to safety. Recruitment of patients into this part of the trial is purposefully staged since each patient must be carefully reviewed for their response to therapy prior to treatment of subsequent patients.

Three dose levels of cyclophosphamide alongside MetXia have been evaluated and patient recruitment at a fourth dose level is ongoing. The patients are at an advanced stage of their disease, and most have

“the Company is evaluating various strategic options, including licensing the programme to potential partners”



5T4 TARGETED ANTIBODY THERAPY/CME-548 (WYETH)

Key Highlights for 2006

- Wyeth completed key preclinical studies
- Wyeth highlighted CME-548 in an R&D presentation to analysts and investors

Key Objective for 2007

- Wyeth to continue its evaluation of CME-548 in preclinical models

TROVAX-VET® (INTERVET)

Key Highlight for 2006

- **Intervet completed preclinical product optimisation**

Key Objective for 2007

- **Intervet to start field trials in dogs with naturally occurring tumours**

previously failed to respond to other therapies. To date, there have been no serious adverse events associated with MetXia. Recruitment of patients into the trial has been slower than expected and the Company has implemented changes that are designed to accelerate the study.

Oxford BioMedica expects to report further safety and outcome data from this trial during 2007. In addition, the Company intends to open discussions with the regulatory authorities to determine the most expeditious route to obtain regulatory approval of MetXia for the treatment of pancreatic cancer.

MetXia could provide a novel treatment option for the unmet need in pancreatic cancer and other tumour types. To maximise the commercial opportunity for MetXia, the Company is evaluating various strategic options, including licensing the programme to potential partners.

5T4 TARGETED ANTIBODY THERAPY/CME-548 (WYETH)

In 2006, Wyeth completed key preclinical studies of the 5T4 targeted antibody therapy in collaboration with Oxford BioMedica. The product has been denoted by Wyeth as CME-

548 and was described in detail in an R&D presentation to analysts and investors hosted by Wyeth in October 2006. Wyeth continues to evaluate the product in preclinical models. The expectation is that, if warranted on completion of preclinical studies, Phase I/II development of CME-548 will be in patients with solid tumours that express the 5T4 tumour antigen. The start of clinical development will trigger a milestone payment to Oxford BioMedica under its US\$24 million collaboration with Wyeth.

TROVAX-VET® (INTERVET)

In 2006, Intervet completed its preclinical optimisation of the canine version of TroVax-Vet, in collaboration with Oxford BioMedica, in readiness to commence initial field trials of the product. Intervet anticipates a regulatory submission for the start of field trials in dogs with naturally occurring cancer in 2007.

PROSAVIN®

Key Highlights for 2006

- ProSavin outperformed standard treatment in preclinical studies
- Manufacturing of clinical material initiated in GMP facility
- Regulatory process for start of clinical trials underway

Key Objectives for 2007

- Publish preclinical results in medical journal
- Gain regulatory approval for start of clinical trials
- Start Phase I/II trial in patients with moderate to late-stage Parkinson's disease

NEUROTHERAPY

The neurotherapy pipeline exploits the Company's proprietary LentiVector gene delivery technology, and addresses a range of neurological and ophthalmic conditions. These are primarily disorders associated with ageing, inherited diseases and vision loss. Oxford BioMedica's novel gene-based neurotherapy candidates offer potentially safe and effective therapies for diseases, where, in some cases, there are currently no available treatment options.

In 2006, the key objective for the neurotherapy pipeline was to prepare the two lead product candidates, ProSavin for Parkinson's disease and RetinoStat for retinopathy, for clinical development. The Company has made progress on both programmes. The Company faced some unexpected manufacturing issues related to ProSavin, which have been successfully addressed. The regulatory process that will lead to a formal submission for the start of trials with ProSavin is underway. The Company started pivotal non-clinical studies with RetinoStat and is preparing for manufacturing scale-up to support a regulatory submission for clinical trials.

Given the commonality of the LentiVector system to all the neurotherapy products, the infrastructure for ProSavin that relates to manufacturing scale-up and safety testing can be applied to the entire portfolio. Hence, the time invested in ProSavin should accelerate the programmes for the other development candidates. The Company anticipates starting clinical development of ProSavin and RetinoStat for age-related macular degeneration within 12 to 18 months with at least one neurotherapy

product candidate advancing to clinical development each year thereafter.

The neurotherapy portfolio continues to attract support from charitable and patient organisations. In 2006, a sixth preclinical programme was added to the neurotherapy portfolio. This new gene-based product candidate, StarGen for the treatment of an inherited ocular condition, Stargardt's disease, is being developed in collaboration with the US charity, Foundation Fighting Blindness and the National Neurovision Research Institute.

PROSAVIN®

In 2006, Oxford BioMedica made good progress towards the goal of starting clinical trials of ProSavin in Parkinson's disease. The manufacturing process for production scale-up was successfully transferred to a facility that is in compliance with Good Manufacturing Practice (GMP). This step was more time-consuming than anticipated, and this has delayed the formal regulatory submission to start trials. However, all remaining issues have been addressed and the manufacture of GMP clinical material is now underway and relevant safety studies using the final product are ongoing. The manufactured material will be sufficient for the Company's proposed Phase I/II trial in patients with moderate to late-stage Parkinson's disease.

In the second half of 2006, Oxford BioMedica had two formal meetings with a European regulatory agency to discuss the application to start trials and the development plan for ProSavin. The proposed development plan is to conduct a Phase I/II trial, then, subject to the efficacy

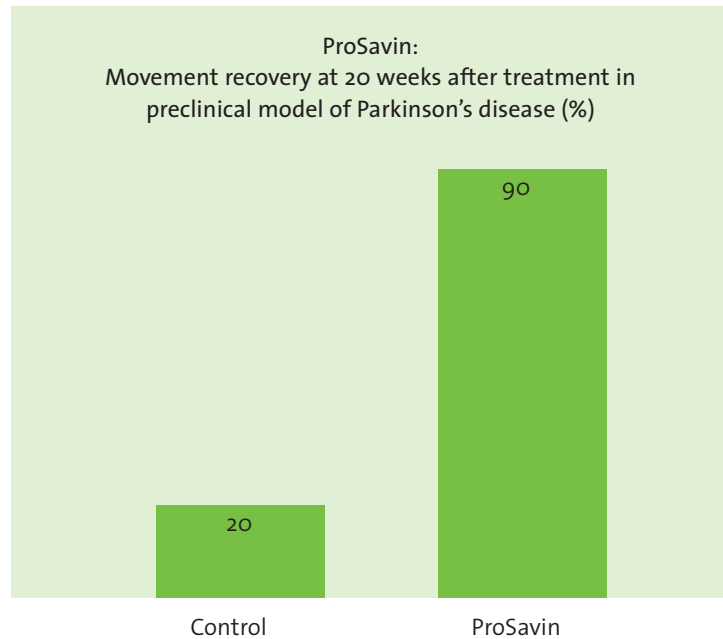
results in the Phase I/II study, to move directly to a Phase III trial that would be designed to support product registration and could commence in 2009. Interactions with the regulatory agency have been encouraging and the Company anticipates a regulatory submission for the start of the Phase I/II trial in 2007.

At the European Society of Gene Therapy Annual Congress in November 2006, a leading neuroscientist presented new preclinical data from the ProSavin programme. In industry-standard models of the disease, ProSavin outperformed the standard treatment for Parkinson's disease, L-DOPA, in terms of efficacy without inducing any of the disabling dyskinesias (movement disorders) that occur following prolonged treatment with L-DOPA. In addition, long term data showed that ProSavin's therapeutic benefit from a single administration was maintained for at least 15 months, the most recent time point, without any loss of effect, whereas the benefit of continuous L-DOPA therapy waned significantly.

The superior efficacy of ProSavin combined with the absence of side effects suggest that ProSavin could be used to replace standard L-DOPA therapy in moderate to late-stage Parkinson's disease. The results from these and other preclinical proof of principle studies are being submitted for publication in a medical journal during 2007.

Oxford BioMedica's strategy is to secure commercial partners after demonstrating efficacy in clinical trials. In the case of ProSavin, the Company has had discussions with potential partners that may lead to an earlier agreement if sufficiently attractive terms can be negotiated.

“ProSavin outperformed the standard treatment for Parkinson's disease, L-DOPA”



RETINOSTAT®

In 2006, Oxford BioMedica and its collaborators at Johns Hopkins University School of Medicine, Baltimore, Maryland, USA, presented encouraging preclinical data with RetinoStat at the Association for Research in Vision and Ophthalmology (ARVO) Annual Meeting. The data confirmed that RetinoStat provides statistically significant efficacy in an industry-standard preclinical model of neovascular age-related macular degeneration (AMD). In addition, by precisely engineering gene switches in the product, the Company achieved highly specific gene expression in the target cells of the retina. This substantially enhances the potential safety and efficacy of RetinoStat.

Oxford BioMedica and Johns Hopkins University, in partnership with the Foundation Fighting Blindness (FFB) and its support organisation, the National Neurovision Research Institute, are conducting pivotal non-clinical studies with RetinoStat that are designed to support a regulatory submission for the start of clinical trials in patients with neovascular AMD. Following completion of the GMP manufacture of ProSavin, the Company plans to scale-up the manufacturing of RetinoStat during 2007. The objective is to submit an Investigational New Drug (IND) application to the US FDA for the start of trials in 2008.

As with other preclinical candidates in its pipeline, Oxford BioMedica may collaborate on the development of RetinoStat prior to demonstrating clinical efficacy. Initial discussions with potential partners have taken place.

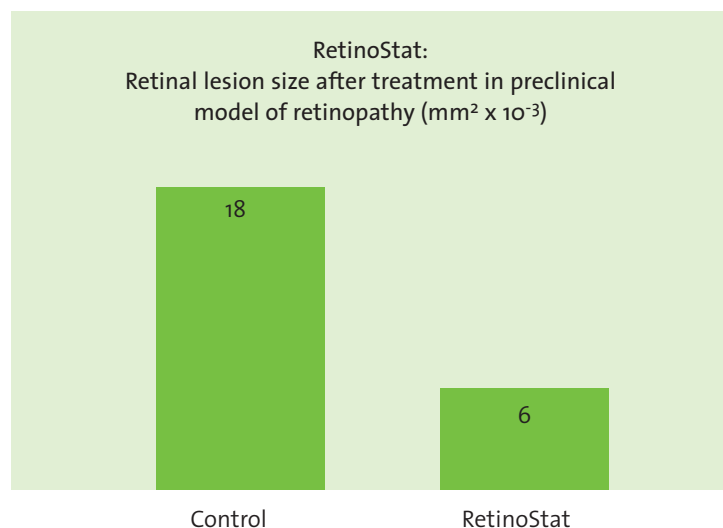
RETINOSTAT®

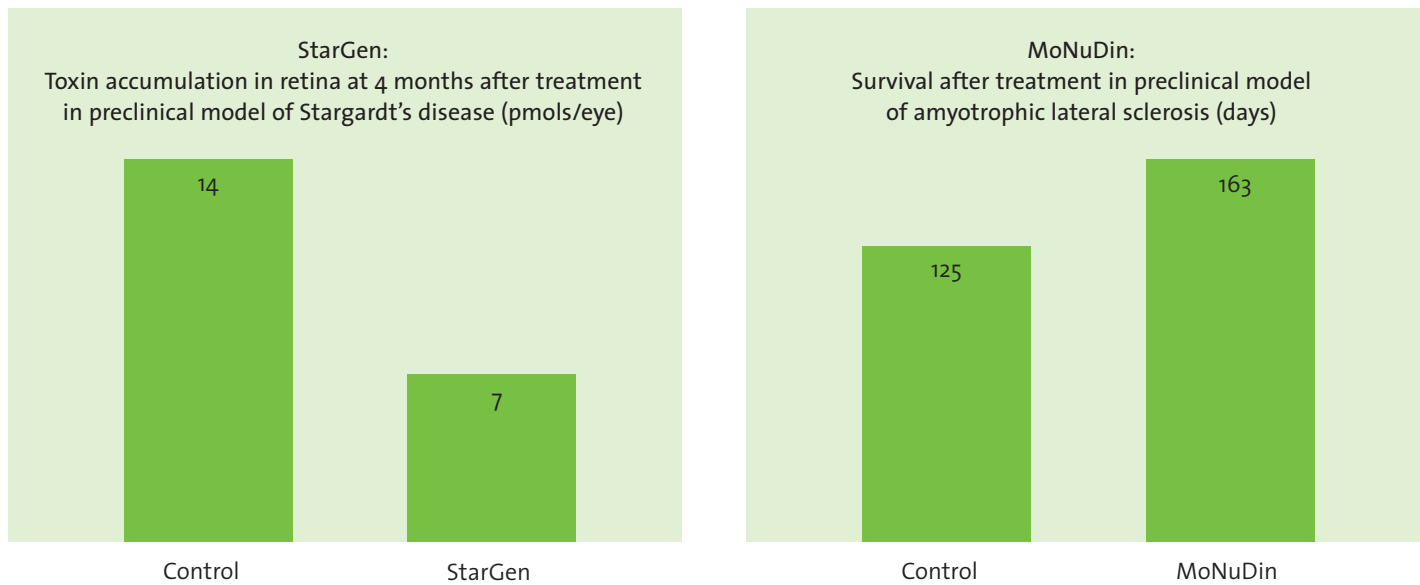
Key Highlights for 2006

- Preclinical results with optimised clinical candidate confirmed efficacy
- Preparations for clinical trials initiated

Key Objectives for 2007

- Commence manufacturing scale-up of clinical material
- Submit IND for start of clinical trials in the USA





STARGEN™

In October 2006, Oxford BioMedica announced a new preclinical development programme for the treatment of Stargardt's disease, which is the most common juvenile degenerative retinal disease. The Company is evaluating its LentiVector technology for the treatment of several ocular diseases, and the Stargardt's disease programme, called StarGen, is the most advanced. The programme is part of a broad collaboration with FFB and its support organisation, the National Neurovision Research Institute, and it builds on the existing agreement with FFB for the development of RetinoStat. Under the agreement, FFB and a consortium of investors made an upfront payment and committed to a staged subscription for approximately US\$3.9m of Oxford BioMedica ordinary shares at a 10% premium to the market price at the time of investment. An initial subscription of US\$300,000 was made in 2006. These funds support the development of StarGen, and, in return, FFB and the investors will receive a royalty on commercialisation of the product.

The Company also reported initial preclinical data with StarGen, showing efficacy in an industry-standard model of Stargardt's disease. The product was effective for the duration of the study, which was approximately six months. Further preclinical development is ongoing at Columbia University in the USA.

MONUDIN®, SMN-1G AND INNUREX®

The three early-stage neurological programmes, MoNuDin, SMN-1G and Innurex, continue to progress through preclinical development. These gene-based

therapeutics are addressing motor neuron disease, spinal muscular atrophy and nerve repair for spinal cord injury, respectively. In 2006, the Company and its scientific collaborators continued to build the preclinical data packages that will support advancement of the product candidates into clinical development.

New data with MoNuDin for amyotrophic lateral sclerosis, the most common form of motor neuron disease, showed that the product successfully reached motor neurons following remote, intramuscular administration. Further data from the MoNuDin programme are expected to be presented at a medical conference in 2007. The UK Motor Neurone Disease Association continues to fund this programme.

In 2006, the SMN-1G product configuration was further optimised. The objective for 2007 is to define the clinical strategy for SMN-1G with support from leading clinicians in the field of spinal muscular atrophy. In addition, the Company is seeking further funding from charities and patient groups associated with this inherited disease.

Oxford BioMedica and its collaborators at King's College London, UK, published preclinical efficacy results with Innurex in *Nature Neuroscience* in February 2006. The data were based on a preclinical study of Innurex in spinal cord injury, which showed a statistically significant improvement in both sensory and motor functional ability with Innurex compared to placebo for most measurements. The results were also presented at the British Society for Gene Therapy Annual Conference in March 2006. Further preclinical studies are ongoing and the Company aims to define a clinical plan for initial trials of Innurex during 2007.

OTHER PROGRAMMES

Outside of its core therapeutic focus, the Company has advanced its preclinical programme, for the blood clotting disorder, haemophilia A. This congenital condition is caused by a deficiency of the blood clotting protein, Factor VIII. The Company's product, ReQuinate®, is designed to restore levels of the deficient protein by delivering the gene for Factor VIII using the LentiVector system.

The Company presented preclinical data from the ReQuinate programme at the British Society for Gene Therapy Annual Conference in March 2006. The data showed that the product produced potentially therapeutic levels of the Factor VIII protein in liver cells. The Company is conducting further optimisation work with ReQuinate to improve the delivery of the Factor VIII gene to the liver. The programme is funded by a grant from the UK Department of Health.

The Company continues to evaluate opportunities for therapeutic product development using the LentiVector technology as a delivery mechanism for molecules that can silence genes via a process known as RNA interference (RNAi). The Company's research efforts are focused on the evaluation of the LentiVector system for the delivery of micro-RNA, which can be used to regulate the expression of disease-related genes.

These programmes are at the discovery or early preclinical stage and are outside of the Company's core focus. Hence, their successful application and progression are uncertain and may be subject to priority changes within the Company.

TECHNOLOGY LICENSING

Key Highlights for 2006

- **LentiVector technology licensing agreement with GlaxoSmithKline**
- **Existing LentiVector licence upgraded to an all-territory perpetual licence**
- **Licensing agreement with VIRxSYS for Oxford BioMedica's viral envelope technology**

TECHNOLOGY LICENSING

Oxford BioMedica's technology licensing strategy is to exploit the potential of its suite of gene delivery technologies by providing third-party access either for research, product development or specific applications. In 2006, Oxford BioMedica delivered on its broad goals of attracting new licensees and expanding existing agreements. Oxford BioMedica added two new licensees, VIRxSYS and GlaxoSmithKline, during the year, bringing the total number of active licensing agreements to nine. In addition, one existing licence was upgraded to an all-territory perpetual licence. The Company's strategic alliance partner, Sigma-Aldrich, commenced commercialisation of LentiVector-based reagents, and another licensee, Viragen, reported progress with its LentiVector-based transgenic programme.

The agreement with VIRxSYS, signed in March 2006, provides a licence to Oxford BioMedica's patents for the VSV-G viral envelope system for the production of VIRxSYS' product for the treatment of AIDS, VRX496. This novel gene therapy is the first lentiviral-based drug candidate to have entered clinical development in the USA. VIRxSYS is conducting two Phase II trials of VRX496 in patients with HIV. Under the agreement, Oxford BioMedica received an upfront licence fee in 2006 and receives annual maintenance payments, clinical and regulatory milestone payments and royalties on product sales.

In December 2006, GlaxoSmithKline (GSK) licensed the Company's LentiVector gene delivery technology for research activities in a joint agreement with Sigma-Aldrich. GSK has joined other major pharmaceutical and biotechnology companies, including Biogen Idec, Merck & Co and Pfizer, in utilising the LentiVector system in its research and drug discovery programmes. Also in December 2006, Oxford BioMedica expanded an existing research licence agreement for the LentiVector technology with a major undisclosed pharmaceutical company. The amendment broadens the agreement from an annual licence for research activities in the USA to a worldwide perpetual licence. In all of these agreements the licence is restricted to research, and a more substantial commercial licence would need to be obtained from Oxford BioMedica to use the technology for a commercial product or process.

Key Objectives for 2007

- **Sign additional technology licensing deals with blue-chip companies**
- **Expand existing relationships to establish more significant collaborations**

Sigma-Aldrich commenced its commercialisation efforts as part of the strategic alliance with Oxford BioMedica, which was signed in October 2005. During 2006, Sigma-Aldrich launched a range of high-value LentiVector-based research products for its extensive customer base in the pharmaceutical, biotechnology and academic sectors. Further launches are anticipated in 2007. Under the agreement with Sigma-Aldrich, Oxford BioMedica receives annual minimum payments and royalties on sales of these products.

Viragen, which licensed the LentiVector technology in 2004 for the development of an avian transgenic biomanufacturing system, published results and reported further progress with its programme in January 2007. An article in a leading scientific journal profiled the avian transgenic (OVA™) system's ability to express two therapeutic proteins in the whites of eggs of transgenic hens. Following this

publication, Viragen reported the successful expression of a third protein, human interferon alpha-2a, in the OVA™ system. The Viragen agreement includes annual licence payments, milestone payments on the achievement of technical goals and royalties on commercialisation.

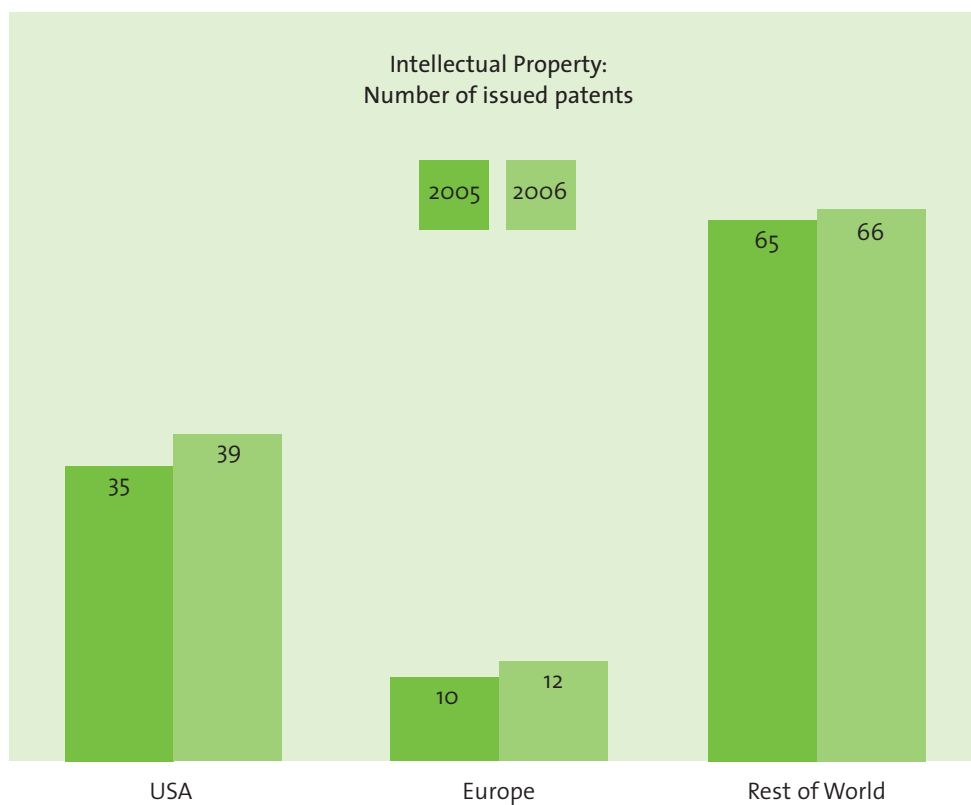
The LentiVector technology is becoming a gold standard tool for various applications in research and drug discovery. The current revenue stream from the Company's technology licensing is modest, although some of the agreements have the potential to generate significant additional income. In 2007, the ongoing objective is to broaden the portfolio of licensed users of the Company's technologies. The Company also aims to expand its existing relationships, particularly the research-based agreements, into more substantial, longer-term collaborations.

“The LentiVector technology is becoming a gold standard tool for various applications in research and drug discovery”

INTELLECTUAL PROPERTY

Key Highlights for 2006

- ProSavin patent received Notice of Allowance in the USA
- One LentiVector patent was issued and another received Notice of Allowance in the USA
- Innurex patent granted in Europe



INTELLECTUAL PROPERTY

Maintenance and expansion of the Company's intellectual property estate is fundamental to the Company's commercial strategy. The Company's patent portfolio covering its products and technologies comprises 39 US and 12 European granted patents. This portfolio increased by four patents in the USA and two in Europe from the figure in the 2005 Annual Report. A further 66 patents have been issued in other jurisdictions, an increase of one since last year. In total, 162 patent applications are currently pending. Another 14 patent families, covering key technologies, are licensed from third parties.

Key events related to intellectual property during 2006 included a Notice of Allowance from the US Patent Office for a key patent application for ProSavin, strengthening of the LentiVector patent portfolio, and the grant of a European patent for Innurex.

The US patent for ProSavin, that received a Notice of Allowance, significantly extends the protection of the Company's lead product candidate for Parkinson's disease. This patent describes the genetic composition of ProSavin and, as such, is an important addition to the portfolio of patents that protect the product. The patent also provides protection for new product candidates that the Company may develop for the treatment of other neurodegenerative conditions such as Alzheimer's disease.

The patent estate covering the LentiVector technology was strengthened by the issue of one new US patent and a Notice of Allowance on another patent application. These patents broaden the protection of the

LentiVector delivery and production systems. Patents covering aspects of this technology have previously been granted in Europe and China. The Innurex programme benefited from the grant of a European patent that covers the genetic delivery of the therapeutic gene, which is a subtype of the retinoic acid receptor that induces nerve cells to re-grow.

In 2006, Sigma-Aldrich and Oxford BioMedica filed a lawsuit against Open Biosystems Inc for infringement of two US patents relating to the use of the LentiVector technology for RNA interference research tools. The costs of the litigation are being covered by Sigma-Aldrich.

“Maintenance and expansion of the Company's intellectual property estate is fundamental to the Company's commercial strategy”