

# Chairman's report

I am pleased to report another year of excellent progress for Oxford BioMedica. We have advanced both our development and our commercialisation activities. In 2006, we achieved a key development milestone by commencing a Phase III clinical trial with TroVax, our lead cancer immunotherapy product, and made good progress towards the objective of starting clinical trials of ProSavin, our product for Parkinson's disease. Our key commercial focus in 2006 was to secure a commercial partner for TroVax. We have progressed to an advanced stage of negotiations with potential partners and remain committed to achieving this goal. Also in 2006, the Company celebrated its ten year anniversary. I am extremely proud that we have established one of the world's leading gene therapy companies with a broad pipeline and suite of technologies in that time. We remain committed to our corporate mission to improve patient lives by bringing safe and effective gene-based treatments to the market and, in doing so, to create long term value for shareholders.

## ONCOLOGY OVERVIEW

The need for new cancer therapies has never been greater and the pharmaceutical industry has recognised that vaccines could play a significant role as additional treatment options for patients. We believe that TroVax has the potential to be one of the first of a new generation of cancer vaccines, and that it could provide benefit in a number of different cancers. In 2006, we reported further positive data from the Phase II programme of TroVax, including final data from the colorectal cancer trials and interim data from trials in patients with renal and prostate cancer. Over 180 patients have now been treated with TroVax, and the product has an excellent safety profile with evidence of efficacy in multiple cancer settings. Starting the Phase III TRIST trial of TroVax in renal cancer in November 2006 was a major milestone for the Company. We are very encouraged to have support from

the FDA, which earlier in the year agreed a Special Protocol Assessment for the trial. This provides a clear path to approval and launch of TroVax in the USA if the trial is successful. We expect further data from the TroVax clinical programme during 2007, including the first review by the Data Safety Monitoring Board of TRIST. Our commercial negotiations for TroVax are well advanced and, subject to final agreement, we expect to conclude a global licensing deal with a major pharmaceutical company.

Our second clinical candidate, MetXia, has progressed in clinical development, but more slowly than anticipated due to the aggressiveness of the disease and, hence, poor patient recruitment. A Phase II trial of MetXia as a localised therapy alongside chemotherapy in patients with operable pancreatic cancer is ongoing. The data continue to look encouraging and we are taking steps to accelerate patient recruitment, whilst considering our commercial options for the programme. Also in oncology, during 2006, we were delighted that our partner Wyeth announced that it is continuing its preclinical evaluation of our collaborative product candidate, CME-548. The commencement of clinical development will trigger a milestone payment under our agreement.

As our TroVax development programme matures, we are considering strategic opportunities to broaden our oncology portfolio and exploit our expertise in cancer immunotherapy and biological products.

## NEUROTHERAPY OVERVIEW

The development of novel neurobiological products is one of the fastest growing sectors in the pharmaceutical industry. Our neurotherapy pipeline, which is based on the Company's core LentiVector gene delivery technology, continues to attract interest from industry and support from charitable and patient organisations. Our products are addressing debilitating diseases with unmet

medical need. With an aging population, neurodegenerative diseases are a growing burden to the healthcare system. A recent US study raised concerns about the lack of long term effective treatments for Parkinson's disease, which is costing society US\$27 billion a year in medical bills and lost wages.

In 2006, we made good progress towards the goal of starting clinical trials of our novel gene therapy product for Parkinson's disease, ProSavin. The process of scaling-up the manufacture and transferring this to a facility capable of producing clinical-grade material was a technical challenge. The product is entirely novel and therefore required the development of a completely new manufacturing process. As a result we had to overcome some unforeseen hurdles along the way. However, these issues have now been addressed, the manufacturing technology has been successfully transferred to a contract manufacturer and initial regulatory meetings have been held. Final toxicology and dosing studies remain to be completed and we expect to make formal regulatory submissions for the first clinical trial of ProSavin in 2007.

We have also made progress with our other neurotherapy programmes, including the completion of further preclinical studies to support the start of human trials with both RetinoStat for vision loss and MoNuDin for motor neuron disease. Furthermore, we are currently in discussions with patient groups and charities to secure funding to support the ongoing development of our drug candidate for spinal muscular atrophy, SMN-1G.

During 2006, we expanded our neurotherapy pipeline by formally commencing preclinical development of a LentiVector-based therapy to treat an inherited ocular condition, Stargardt's disease. A leading US blindness charity, the Foundation Fighting Blindness, the National

# “Our products are addressing debilitating diseases. With an aging population neurodegenerative diseases are a growing burden to the healthcare system”

Neurovision Research Institute and a consortium of investors are funding the development of this product, named StarGen. Our strategy is to expand our pipeline further by following a similar approach for other inherited ocular diseases. These diseases tend to have limited prevalence but represent an unmet medical need for safe and effective therapies. As the timelines for development of these therapies would be relatively short, the commercial opportunity could be considerable. We have been encouraged by the active support of dedicated charities in these disease areas, which enables us to share the risk of product development whilst maintaining commercial flexibility.

## LICENSING AND COLLABORATIONS OVERVIEW

Our LentiVector technology is becoming the gold standard gene delivery tool in pharmaceutical research as evidenced by an increasing number of users of LentiVector-based reagents through our alliance partner, Sigma-Aldrich, and through direct licensees of the technology. Sigma-Aldrich has launched a suite of reagents based on our technology, and is planning further launches in 2007. Oxford BioMedica receives royalties on Sigma-Aldrich's global sales of these reagents. In 2006, GlaxoSmithKline joined other major pharmaceutical and biotechnology companies by licensing our LentiVector technology for research use in a joint agreement with Oxford BioMedica and Sigma-Aldrich. Also during the year, another of our licensees expanded its agreement to a worldwide perpetual licence.

## FINANCIAL OVERVIEW

Our financial results for 2006 reflect increased investment in clinical development, most notably relating to TroVax. Net cash used in operating activities during 2006 rose to £15.7 million (2005: £7.3

million). Revenue, which is primarily annual fees for technology licensing, was unchanged at £0.8 million. The start of the Phase III TRIST trial of TroVax contributed to an increase of 109% in research and development costs for 2006 to £19.5 million (2005: £9.3 million). We closed the year with a net balance of cash, cash equivalents and short term deposits of £28.5 million (2005: £43.8 million). Our current resources are sufficient to support operations, including the TRIST trial, until mid-2008 and we do not anticipate the need to raise additional funds ahead of achieving our major commercial objective of a global collaboration for TroVax.

## CORPORATE REPORTING

This year's Annual Report follows a similar format to last year with the addition of a 'Company Overview' section that describes our operations and capabilities, together with a profile of our core product candidates and technology. We strive to be transparent in our communications and we have designed the Annual Report to present a clear picture of strategy, performance and practices. We have provided a 'Business Review' that is intended to provide shareholders and other stakeholders with a balanced and comprehensive assessment of our operational activities and strategy. The Business Review includes an analysis of our performance compared to our objectives for 2006, describes how and why actual events may have differed from those forecast, and sets out our objectives for 2007. As before, we have also provided details of the Company's working practices in relation to our corporate social responsibility.

## RISKS AND UNCERTAINTIES

It should be noted that future events may cause us to adjust our strategic objectives and priorities. For any organisation with a broad and commercially relevant patent estate, there is the risk that patents are

proved to be invalid or unenforceable and patents may be challenged through opposition or revocation proceedings. There are inherent risks in the development of new therapeutic candidates: data from preclinical or clinical studies may be inconclusive or may reveal previously unforeseen adverse events; and regulatory authorities may reject submissions or request that additional information be provided. Such events could delay or halt further development of any of the Company's product candidates. In addition, our commercial partners and licensees may delay their development efforts or terminate their collaboration or licence agreement with Oxford BioMedica for reasons unrelated to the product or technology. Similarly, the timing of certain events such as manufacturing scale-up, recruitment into clinical trials, regulatory interactions and the signing of corporate collaborations are difficult to predict. Furthermore, as part of our portfolio management strategy, we may identify new technologies and product opportunities for development and commercialisation. However, statements relating to future events and objectives within this document are set out in good faith and represent the Board's realistic expectations based on current knowledge.

## BOARD AND PEOPLE

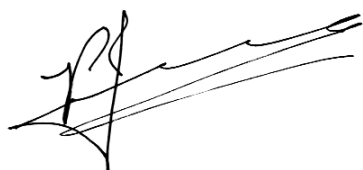
Our total staff headcount has remained relatively stable during 2006 at approximately 72 full-time employees. During the year, there were two changes to the Board. Dr Michael McDonald, who joined Oxford BioMedica in 2005 as Chief Medical Officer, was appointed to the Board as an Executive Director in February 2006. Mike has considerable experience in clinical development and regulatory affairs gained over 20 years in the pharmaceutical and biotechnology industry, and I welcome him to the Board. Raj Uppal, a Non-Executive Director, resigned from the Board in March 2006 to pursue other interests. I would like

to thank Raj for his valuable contribution to Oxford BioMedica. He has been an excellent source of advice over the years, having joined the Board in February 2001. A replacement Non-Executive Director is being sought.

#### OUTLOOK

As we move into our next decade, I am more confident than ever that we have the elements in place to become a successful biopharmaceutical company. We have set clear, near-term objectives for our lead programmes. As we achieve these key development and commercial milestones, we expect to accelerate some of our early-stage product candidates and to expand the pipeline with new development opportunities that make the best use of our strengths and expertise. We look forward to delivering on these goals during 2007.

I would also like to recognise the support and commitment shown to Oxford BioMedica by our partners, licensees and shareholders, and most importantly, the skills, knowledge and dedication of our staff, which are critical to the success of Oxford BioMedica. I am, as ever, grateful to them for their efforts, which have helped to shape our progress.



Dr Peter Johnson  
CHAIRMAN

**“As we move into our next decade, I am more confident than ever that we have the elements in place to become a successful biopharmaceutical company”**



“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”

