

DIRECTORS' REPORT

FORTHE YEAR ENDED 31 DECEMBER 2004

The directors present their report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

Oxford BioMedica (LSE: OXB) is a biopharmaceutical company specialising in the development of novel gene-based therapeutics with a focus on the areas of oncology and neurotherapy. The company was established in 1995 as a spin out from Oxford University, and is listed on the London Stock Exchange.

In addition to its technical expertise in gene delivery, Oxford BioMedica has in-house clinical, regulatory and manufacturing know-how. The development pipeline includes two novel anti-cancer products in phase II clinical trials; two neurotherapy products in advanced preclinical development for Parkinson's disease and retinopathy; and three further preclinical neurotherapy products. The company is underpinned by an extensive preclinical and research portfolio and over 80 patent families, which represents one of the broadest patent estates in the field.

At 31 December 2004 the company had 66 employees, at its main facilities in Oxford and at its wholly owned subsidiary, BioMedica Inc, in San Diego, California. Oxford BioMedica has collaborations with Wyeth, Intervet, Amersham, Viragen, MolMed and Kiadis, and has licensed its LentiVector technology to a number of companies including Merck & Co and Biogen Idec.

Further information is available at <http://www.oxfordbiomedica.co.uk>

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The consolidated profit and loss account for the year is set out on page 35. A review of the group's activities and future developments is contained within the chairman's and chief executive's report on pages 2 to 17 and the financial review on pages 22 and 23.

DIVIDENDS

The directors do not recommend payment of a dividend. (2003: nil)

GROUP RESEARCH AND DEVELOPMENT ACTIVITIES

During the year the group incurred expenditure of £9,190,000 on research and development (2003: £10,773,000), all of which was written off to the profit and loss account.

CHARITABLE DONATION

During the year the group made a contribution of £1,500 (2003: £1,500) to Helen House, a community-based charitable organisation in Oxford.

DIRECTORS

The directors of the company at 31 December 2004, who had been directors for the whole of the year then ended unless otherwise indicated, were:

Mark Berninger	Non-executive director
Dr Peter Johnson	Non-executive chairman, chairman of audit and remuneration committees
Professor Alan Kingsman	Chief executive officer
Professor Susan Kingsman	Senior vice president: research
Peter Nolan	Senior vice president: commercial development
Nicholas Rodgers	Non-executive director (appointed 2 March 2004). Appointed senior independent director on 12 May 2004
Raj Uppal	Non-executive director
Andrew B Wood	Chief financial officer

On 2 March 2004 Andrew Allars and Dr Doug Jolly resigned as directors. Subsequent to the year end, on 3 March 2005 Nick Woolf, senior vice president: corporate strategy, was appointed to the board.

All directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of not more than three years. At the 2005 annual general meeting Dr Peter Johnson, Peter Nolan and Raj Uppal will retire in accordance with article 93 of the company's articles of association, and will offer themselves for re-election. Nick Woolf, who was appointed to the board on 3 March 2005, will retire in accordance with article 99 of the company's articles of association. The appointments of Dr Peter Johnson and Raj Uppal are subject to three months' notice. The contracts of employment of Peter Nolan and Nick Woolf are subject to twelve months' notice.

Biographical details of all the directors, including those submitted for re-election are given on pages 18 and 19.

The interests of the directors at 31 December 2004 in the share capital of the company are disclosed in the report of the remuneration committee on pages 29 to 33.

EMPLOYEES

The group communicates and consults regularly with employees throughout the year. Employees' involvement in the group's performance is encouraged, with all employees participating in share option schemes, and certain employees participating in bonus schemes.

The group's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity regardless of sex, religion or ethnic origin. The group does all that is practicable to meet its responsibility towards the employment and training of disabled people.

HEALTH AND SAFETY

The group is committed to providing and maintaining a safe working environment for all its employees. Health and safety procedures are subject to external review.

ENVIRONMENTAL POLICY

The group carries out environmental monitoring in order to meet regulatory and statutory requirements. The group is committed to minimising the impact of its activities on the environment.

DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2004. The directors also confirm that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the group's website, www.oxfordbiomedica.co.uk is the responsibility of the directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

SUBSTANTIAL SHAREHOLDINGS

At 14 March 2005 the company had been notified of the following shareholdings amounting to 3% or more of the ordinary share capital of the company.

Shareholder	Number of ordinary shares	Percentage of issued share capital
Credit Agricole Cheuvreux Limited	27,672,000	7.42%
Man Financial Limited	22,725,800	6.09%
Professor Alan Kingsman and Professor Susan Kingsman ¹	17,032,590	4.57%
Prudential Assurance Group	15,505,000	4.16%
Global Asset Management Limited	14,253,000	3.82%
Sputnik Group ²	14,146,624	3.79%

¹ Aggregate interest, including 100,000 shares registered to CC Kingsman, the son of Alan and Susan Kingsman.

² Aggregate interest of Sputnik Group Limited, Garboldi Investment Limited and Sulidad Invest & Trade Inc.

No other person has reported an interest in the ordinary shares of the company required to be notified to the company.

CREDITOR PAYMENT POLICY

The company and its subsidiaries agree the terms of payment when agreeing the terms and conditions for their transactions with suppliers. Payment is made in compliance with those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. The group's average creditor payment period at 31 December 2004 was 18 days (2003: 16 days). The company has no trade creditors (2003: nil).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Oxford BioMedica's first full financial statements under IFRS will be made for the year ended 31 December 2005, and the first IFRS-compliant interims will be made for the six months ending 30 June 2005. The directors are committed to ensuring that the transition to IFRS is actively managed, and that the auditors are engaged throughout the process. The major impact is expected to be as a result of the charge to the profit and loss account for share-based remuneration.

CORPORATE GOVERNANCE

Application of the principles in the FRC combined code on corporate governance

The policy of the board is to manage the affairs of the group to the highest standards of corporate governance and in accordance with the principles of good governance and the code of best practice as set out in the FRC combined code on corporate governance issued in July 2003 (the 'Combined Code').

The board considers that it has complied throughout the year with the provisions for companies set out in Part 2 of the Combined Code, unless otherwise indicated below.

Compliance with the provisions of the Combined Code

The board

The group is led and controlled by a board consisting of four non-executive directors and five executive directors. Between 2 March 2004 and 3 March 2005 there were four executive directors. As set out in their biographies on pages 18 and 19, the directors have significant experience of the management and development of a biopharmaceutical group and of pharmaceutical research and the new drug development process. There is a clear division of responsibilities between the chairman and chief executive officer. The board considers that the non-executive directors are independent of management. Despite the board's view to the contrary, according to provision A.3.1, footnote 6 of the Combined Code, the chairman may not be considered to be independent. The company is a small company, as defined in the Combined Code, so has complied with provision A.3.2.

The board meets regularly and at least eight times per year, with meeting dates agreed for each year in advance. There is a formal schedule of matters reserved to the board for its decision. The schedule covers senior appointments, business strategy and budgets, substantial transactions, contracts and commitments, financing treasury and risk policies, and the approval of certain documents and announcements including the annual report. There is frequent contact between executive and non-executive directors, and each director is supplied on a timely basis with financial and operational information sufficient for the board to discharge its duties. All directors have access, as required, to independent professional advice. During 2004 there were nine board meetings. The attendance of individual directors at board meetings was: Andrew Allars (resigned 2 March 2004) 1; Mark Berninger 6; Peter Johnson 9; Doug Jolly (resigned 2 March 2004) 0; Alan Kingsman 7; Susan Kingsman 9; Peter Nolan 8; Nick Rodgers (appointed 2 March 2004) 8; Raj Uppal (at the board's request, did not attend 2 meetings due to a potential conflict of interests) 6; Andrew Wood 9.

As appropriate, the board has delegated certain responsibilities to board committees, which operate within defined terms of reference and constitution. There is a remuneration committee, the report of which is on pages 29 to 33. The remuneration committee met seven times in 2004 (some meetings were conducted by conference call). All meetings were attended by the whole committee.

There is also an audit committee, which consists of three non-executive directors, Dr Peter Johnson (chairman), Nick Rodgers and Raj Uppal. Nick Rodgers replaced Andrew Allars on 2 March 2004. As chairman of the company, Dr Peter Johnson may not be considered under the Combined Code to meet the independence criteria. However, as a small company, the board considers that the company has complied with provision C.3.1. The company considers that the members of the audit committee possess recent and relevant financial experience. The audit committee has written terms of reference, which are to be published on the company's web site. It monitors the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them. It reviews the company's internal financial controls and the internal control and risk management systems. It makes recommendations to the board, for it to put to shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditors, and approves the remuneration and terms of engagement of the external auditors. It reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The audit committee approves all non audit services provided by the company's auditor. As part of this approval process, the audit committee ensures that the provision of non audit services will not impact the auditors' objectivity and independence. It reports to the board, identifying matters in respect of which it considers that action or improvement is needed, making recommendations as to the steps to be taken. The audit committee also reviews arrangements by which staff of the company may raise concerns about possible improprieties, and reviews annually the need for an internal audit function. At the committee's invitation or request, the chief executive officer and chief financial officer may be in attendance at meetings of the audit committee. The audit committee met twice in 2004. Both meetings were attended by the whole committee.

Due to the size of the board, the directors do not consider it necessary to have a nomination committee as suggested by provision A.4.1 of the Combined Code. Appointment of directors is therefore considered by the whole board. In relation to the appointment of Nick Rodgers in 2004, external search consultants and open advertising were not used. The whole board agreed that experience in corporate finance and the London financial market were important attributes for a non-executive director. The availability of Nick Rodgers, and his external recommendations, were known to the company. After extensive interviews with the chairman, the chief executive and other directors, the appointment of Nick Rodgers was unanimously agreed by the board. In the circumstances, expenditure on external advertising and search was considered inappropriate.

In accordance with the articles of association, at each annual meeting any director who has served for three years, and one third of the other directors (or if their number is not a multiple of three the number nearest to but not exceeding one third) must retire from office by rotation.

In 2004, in accordance with Combined Code provision A.6, a process for evaluation of the performance of the board, the committees and the individual directors was implemented. The review process is being further developed in 2005, and the detailed disclosure required by provision A.6.1 will be made in the 2005 annual report.

The board retains overall responsibility for, and control of, the group. Management is conducted by the chief executive officer and the executive directors who, together with other senior managers, form the executive management team. Until the restructuring of the US operation in 2004, the chief executive officer of BioMedica Inc. was responsible to the board for monitoring activities in the US. Following the resignation of Dr Doug Jolly on 2 March 2004, the continuing US activities were integrated into the UK management structure. Executive directors sit on the following committees and management groups: the executive management group, the executive research group, the clinical development group, the safety committee, the commercial development committee and the internal patent group. By this means, a direct and ongoing link exists between the determination of strategy by the board and the execution of group policies by the group's employees.

The Scientific Advisory Board ('SAB')

The SAB is a body of independent experts comprising a multidisciplinary group of leading international scientists. Its role is to assist the group with the assessment of its existing and potential research and development projects. The SAB provides access to a large academic and industrial network to add value to the group's projects, including by collaboration where appropriate and by evaluating new strategies and competitors. Biographical details of the SAB are on pages 20 and 21.

Relations with shareholders

Oxford BioMedica attaches a high priority to effective communication with both private and institutional shareholders. The annual report contains a full business review and a description of the candidate products and of the research and development portfolio. An interim business review is also provided with the half-year report sent to all shareholders. With these documents and the group's press releases, the board seeks to present a balanced and understandable assessment of the group's position and prospects. The group's website (www.oxfordbiomedica.co.uk) provides extensive other information about the group.

The annual general meeting is the principal forum for dialogue with private shareholders. A business presentation is made by the chief executive officer and there is an opportunity for shareholders to put questions to the directors. Oxford BioMedica maintains regular contact with institutional shareholders through a programme of one-to-one visits and briefings.

Internal control

The directors are responsible for the group's system of internal control and for reviewing its effectiveness. 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. As described above, the active involvement of the executive directors in the group's management committees allows the board to continually monitor and assess significant business, operational, financial, compliance and other risks, and to review the effectiveness of internal control. This is reinforced by the provision to the board by the executive directors of regular and detailed reports covering, *inter alia*, financing, investor relations, research and development, clinical development, financial performance, commercial interactions and intellectual property management. In addition the board annually reviews the effectiveness of all significant aspects of internal control. The review in 2004 did not highlight any matters that require reporting to shareholders.

The group has procedures in place which incorporate the recommendations on internal control: guidance for directors on the Combined Code (Turnbull).

Internal audit

The group does not consider that an internal audit function is appropriate given the current scale and complexity of its operations. The board reviews the need for an internal audit function each year.

GOING CONCERN

Oxford BioMedica plc is a research and development based business with no currently marketed products. It expects to incur further losses as it continues to develop its portfolio of candidate products and related technology, and may require additional financing for the future operation of its business, including further equity funding as appropriate, before it reaches sustained profitability.

After making suitable enquiries, the directors confirm that they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

BIA CODE

The UK BioIndustry Association ('BIA'), of which the company is a member, adopted a code of best practice in 1999. The BIA code includes principles and provisions relating to corporate governance matters, access to external advice, confidentiality, dealings in the company's shares and standards of public announcements. It is intended to operate by reference to the particular circumstances of bioscience companies in support of the Combined Code and the rules of the Financial Services Authority. Throughout 2004 the company has complied with the relevant provisions of the BIA code.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

By order of the board

Andrew Wood

Company secretary