

# CORPORATE GOVERNANCE STATEMENT

## *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 six Executive Directors. On 13 March 2006 Raj Uppal resigned as a Non-Executive Director, reducing the number of Non-Executive Directors to three. The Company is seeking to appoint a new Non-Executive Director in the near future. As set out in their biographies on pages 30 and 31, 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 2005 there were ten board meetings. The attendance of individual Directors at board meetings was: Mark Berninger eight; Peter Johnson ten; Alan Kingsman ten; Susan Kingsman eight; Peter Nolan ten; Nick Rodgers ten; Raj Uppal eight; Andrew Wood ten; Nick Woolf eight (100% of the meetings since his appointment to the Board in March 2005).

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 43 to 46. The Remuneration Committee met nine times in 2005 (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, up to 13 March 2006, Raj Uppal. 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. 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 other Directors may attend meetings of the Audit Committee. The Audit Committee met twice in 2005. 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 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 accordance with Combined Code provision A.6, the performance of the Board and the committees is reviewed annually, by the use of confidential questionnaires completed by all the Directors.

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 senior management team. Executive Directors sit on the following committees and management groups: the senior 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 32 and 33.

### **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](http://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 2005 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 structure of its operations. As required by the Combined Code, the Board reviews the need for an internal audit function each year.

#### *Financial risk management*

### **Financial risk factors**

The Group's relatively simple structure, principally operating in the United Kingdom, and the lack of debt financing reduces the range of financial risks to which it is exposed. Monitoring of financial risk is part of the Board's ongoing risk management, the effectiveness of which is reviewed annually. The Group's agreed policies are implemented by the Chief Financial Officer, who submits reports at each Board meeting. The Group has not, to date, used derivative transactions, and it is the Group's policy not to undertake any trading in financial instruments.

#### *(a) Foreign exchange risk*

The majority of the Group's revenues, and certain of its expenditures, are in foreign currency, mainly United States dollars. However, relative to the core operating costs which are in sterling, the level of foreign currency transactions has not been material to date. Although an exposure to foreign exchange risk exists, the level has been low. While the Group has had net outflows of foreign currency it has managed short-term fluctuations in exchange rates by holding United States dollars and euros in interest-bearing deposits. As the Group's business matures, the amount of foreign currency income and expenditure is expected to increase, and more sophisticated hedging of foreign currency transactions will be introduced.

#### *(b) Interest rate risk*

The Group does not have any committed borrowing facilities, as its cash balances are sufficient to finance its current operations. Consequently, there is no material exposure to interest rate risk.

#### *(c) Credit risks*

The Group's policy is to place funds with financial institutions rated at least A. During 2005 the Group placed funds on deposit with three banks. One bank, however, dealt with over 90% of the invested funds. The Group does not allocate a quota to individual institutions but seeks to diversify its investments, where this is consistent with achieving competitive rates of return.

#### *(d) Cash flow and Liquidity risk*

The Group presently relies on its invested funds rather than trading receipts to meet its spending commitments. The maturity profile of its investments is structured to ensure that sufficient liquid funds are available to meet current operating requirements. The Directors do not consider that there is presently a material cash flow or liquidity risk.

#### *(e) Pricing risk*

Given the present low level of revenue relative to overall expenditure, the Directors do not consider that there is any material pricing risk.

### **Derivative financial instruments and hedging**

There were no derivatives at 31 December 2005 or 31 December 2004, and hedge accounting has not been used.

### **Fair value estimates**

The fair value of short term deposits with a maturity of one year or less is assumed to be the book value.