

DIRECTORS' REPORT

FORTHE YEAR ENDED 31 DECEMBER 2005

The Directors present their report and the audited financial statements for the year ended 31 December 2005.

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.

Oxford BioMedica has core expertise in gene delivery, as well as in-house clinical, regulatory and manufacturing know-how. In oncology, the pipeline includes an immunotherapy and a gene therapy in multiple Phase II trials, and a preclinical targeted antibody therapy in collaboration with Wyeth. In neurotherapy, the Group's lead product is a gene therapy for Parkinson's disease, which is expected to enter clinical trials before the end of 2006 or in early 2007, and four further preclinical candidates. The Group is underpinned by over 80 patent families, which represents one of the broadest patent estates in the field.

At 31 December 2005 the Group had a staff of 71, mainly based at its laboratories and offices in Oxford. There is also a wholly owned subsidiary, BioMedica Inc., in San Diego, California. Oxford BioMedica has corporate collaborations with Wyeth, Intervet, Sigma-Aldrich, Viragen, MolMed and Kiadis, and has licensed technology to a number of companies including Merck & Co, Biogen Idec and Pfizer.

Oxford BioMedica plc is a public limited company incorporated in England and Wales. The Company is resident in England and the registered office is The Medawar Centre, Robert Robinson Avenue, The Oxford Science Park, Oxford OX4 4GA, United Kingdom.

Further information is available at www.oxfordbiomedica.co.uk

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The consolidated income statement for the year is set out on page 48. A review of the Group's activities and future developments is contained within the Chairman's report and Operating Review on pages 2 to 27 and the Financial Review on pages 34 and 37.

SHARE CAPITAL

During 2005 the Company issued 6,016,006 ordinary shares on the exercise of share options. On 15 December 2005 the Company issued a total of 120,328,041 ordinary shares, raising £28.0 million net of costs in a placing, open offer and subscription (see note 17).

DIVIDENDS

The Directors do not recommend payment of a dividend (2004: nil).

GROUP RESEARCH AND DEVELOPMENT ACTIVITIES

During the year the Group incurred expenditure of £9,327,000 on research and development (2004: £9,013,000), 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 (2004: £1,500) to Helen House, a community-based charitable organisation in Oxford. It is the Group's policy to make a donation to charity rather than to send conventional cards at Christmas.

DIRECTORS

The Directors of the Company at 31 December 2005, 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	Chief Scientific Officer
Peter Nolan	Senior Vice President: Commercial Development
Nicholas Rodgers	Senior Independent Director
Raj Uppal	Non-Executive Director
Andrew Wood	Chief Financial Officer
Nicholas Woolf	Senior Vice President: Corporate Strategy: appointed 3 March 2005

On 2 February 2006 Dr Michael McDonald, Chief Medical Officer, was appointed to the Board. On 13 March 2006 Raj Uppal resigned from 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 2006 Annual General Meeting Professor Alan Kingsman, Professor Susan Kingsman and Nicholas Rodgers will retire in accordance with article 93 of the Company's articles of association, and will offer themselves for re-election. Dr Michael McDonald, who was appointed to the Board on 2 February 2006, will retire in accordance with article 99 of the Company's articles of association. The contracts of employment of Professor Alan Kingsman, Professor Susan Kingsman and Dr Michael McDonald are subject to twelve months' notice. The appointment of Nicholas Rodgers is subject to three months' notice.

Biographical details of all the Directors, including those submitted for re-election are given on pages 30 and 31.

The interests of the Directors at 31 December 2005 in the share capital of the Company are disclosed in the Directors' Remuneration Report on pages 43 to 46.

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.

Further details on employees, health and safety, environmental matters and corporate social responsibility are in the Corporate Social Responsibility Statement on pages 28 and 29.

DIRECTORS' RESPONSIBILITIES

In accordance with company law the Directors are responsible for the preparation of the Annual Report, the Directors' Remuneration Report and the financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business (see accounting policies).

The Directors confirm that suitable accounting policies have been used and applied consistently subject to IFRS transition as explained on page 52 under 'accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and 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 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 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 9 March 2006 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
M&G Investment Management Limited	38,825,426	7.79%
Credit Agricole Cheuvreux Limited	34,666,092	6.95%
Man Financial Limited	28,542,564	5.72%
GAM London Limited	20,062,950	4.02%
Sputnik Group ¹	18,520,401	3.71%
Legal & General Group plc	17,521,222	3.51%
Professor Alan Kingsman and Professor Susan Kingsman ²	17,032,590	3.42%
UBS AG	16,391,929	3.29%

¹ Aggregate interest of Sputnik Group Limited, Pogan Invest Corp and Sulidad Invest & Trade Inc.

² Aggregate interest, including 100,000 shares registered to CC Kingsman, the son of Alan and Susan Kingsman.

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 2005 was 20 days (2004: 18 days). The Company has no trade creditors (2004: nil).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The financial statements for the year ended 31 December 2005 are Oxford BioMedica's first full financial statements under IFRS. The move to IFRS has resulted in reclassifying expenditure on acquired intellectual property rights as intangible fixed assets, increasing net assets by £1.6 million at 31 December 2005 (2004: £1.5 million). The impact on the reported losses is less significant, increasing the net loss for 2005 by £196,000 (2004: reduction of £146,000). The IFRS adjustments are described in note 28 to the financial statements.

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.

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 2005 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