

FINANCIAL REVIEW

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Key Highlights for 2005

- Revenue £824,000: increased £322,000 (64%) over 2004
- Operating expenses £12,192,000: £1,180,000 (9%) less than 2004
- Loss for the year £9,085,000: £1,379,000 (13%) less than 2004
- Cash burn £7,665,000: £2,027,000 (21%) less than 2004
- Total of £29,043,000 raised from issue of shares in 2005
- Year end cash, cash equivalents and current asset investments £43,817,000 (2004: £22,417,000)

PROFIT AND LOSS OVERVIEW

With higher revenue from technology licensing and lower operating costs, the operating loss for 2005 was £1,273,000 less than 2004 at £11,233,000. Slightly lower bank interest was offset by a higher tax credit, making the loss for the year £9,085,000 (2004: £10,464,000).

REVENUE £824,000 (2004:£502,000)

Revenue in 2005 derived from licences to the Group's proprietary gene delivery technology, particularly LentiVector. This revenue stream has been growing since the Company established its technology licensing initiative in early 2004. Total revenue in 2005 was up 64% from the previous year.

	2005 £'000	2004 £'000	2003 £'000
Analysis of revenue			
Gene delivery licences	679	192	-
LentiVector licence for transgenics	145	217	56
Immunotoxin collaboration	-	-	287
Other revenue	-	93	31
Total revenue	824	502	374

Three new LentiVector research licenses were signed in 2005. Also, in October 2005 a key agreement was signed with Sigma-Aldrich to commercialise LentiVector technology for the reagent and research tool market. Income recognised from the initial payment under the Sigma-Aldrich agreement accounted for over half the total gene delivery licence income in 2005. The agreement with Sigma-Aldrich also led to a subscription of £2.9 million (US\$5 million) for Oxford BioMedica plc shares, alongside the placing and open offer in December 2005. In addition, revenue was earned from the licence for retroviral technology with MolMed SpA.

Revenue was also earned in 2005 from the ongoing collaboration with Viragen Inc., using LentiVector gene delivery in the field of avian transgenics. This revenue stream began in 2003, and a licence was signed in 2004 when an initial licence fee was received. Viragen has continued to report good progress, and further annual minimum fees are expected in the future, along with milestone payments and royalties on sales.

Gene delivery technology licences are annually renewable, and recurring annual payments are expected. A new licensing agreement was signed with VIRxSYS Corporation on 10 March 2006, and the Group may enter into further licences. However, there can be no guarantee that more licenses will be signed, or that the existing licences will be renewed.

The Wyeth targeted antibody therapy collaboration is currently the Group's most important partnership. To date revenue of US\$1 million has been received. Wyeth is responsible for carrying out the development programme. Subject to achievement of certain milestones by Wyeth, Oxford BioMedica will receive further milestone payments. The collaboration has continued to make good progress, although no income from it was recognised in 2005. The next significant financial event will be a milestone payment based on the product entering clinical trials. Wyeth is expected to submit an IND to the FDA during 2006 for the start of clinical trials.

Moreover, the Company expects in the future to generate substantial amounts of revenue from collaborative licences arising from its lead products, comprising upfront and milestone fees and ultimately royalties on sales of products.

All the revenue in 2005 arose from contracts denominated in US dollars. The value of future revenue could therefore be affected by changes in the sterling/dollar exchange rate.

OPERATING EXPENSES £12,192,000 (2004: £13,372,000)

Operating expenses in 2005 were £1.2 million lower than 2004, principally due to one-off costs associated with the reorganisation of US activities in 2004. R&D costs were £314,000 (3%) higher than 2004, but as a result of rationalisation savings, they were £1.2 million less than 2003. Administration costs excluding exceptional reorganisation costs were close to last year's level at £2.9 million. The impact of IFRS on these operating expenses was modest, increasing 2005 costs by £196,000 (2%) and reducing 2004 costs by £146,000 (1%) compared to UK GAAP.

	2005 £'000	2004 £'000	2003 £'000
Operating expenses			
Research and development costs – UK GAAP	9,173	9,190	10,773
IFRS adjustment to R&D costs	154	(177)	(213)
Research and development costs – IFRS	9,327	9,013	10,560
Administration expenses excl. reorganisation – UK GAAP	2,823	2,760	2,922
IFRS adjustment to admin expenses	42	31	8
Administration expenses excl. reorganisation – IFRS	2,865	2,791	2,930
Exceptional administration expenses	-	1,568	-
Total operating expenses	12,192	13,372	13,490

RESEARCH & DEVELOPMENT COSTS £9,327,000 (2004: £9,013,000)

The Group's R&D costs comprise in-house costs (staff salaries and expenses, R&D consumables, IP costs, facilities costs and depreciation of R&D assets) and external preclinical and clinical costs (preclinical development, GMP manufacturing, regulatory costs, clinical trials and clinical consultants). The increase in R&D costs in 2005 is attributable to a modest expansion in the UK, in part absorbing R&D workload from rationalisation of the US operations, but also building up critical capabilities in clinical development and quality assurance and control. External clinical and preclinical costs were £231,000 lower in 2005 than 2004.

	2005 £'000	2004 £'000	2003 £'000
Research and development costs			
In-house R&D costs UK	7,310	6,647	6,144
In-house R&D costs USA	287	405	2,030
External preclinical & clinical costs	1,730	1,961	2,386
Total research & development cost	9,327	9,013	10,560

HEADCOUNT

The changing pattern of spending is matched by changes in headcount. Compared to 2003 the average R&D headcount of 59 is unchanged, but there has been a shift from the USA to the UK due to the restructuring of US operations and rationalisation of discovery research. There was no change in the administration headcount between 2004 and 2005.

	2005 number	2004 number	2003 number
Analysis of headcount			
R&D headcount UK at period end	59	55	43
R&D headcount USA at period end	2	1	6
Administration headcount at period end	10	10	12
Total headcount at period end	71	66	61
R&D headcount UK average	58	50	45
R&D headcount USA average	1	2	14
Administration headcount average	10	10	13
Total headcount average	69	62	72

EXTERNAL CLINICAL & PRECLINICAL COSTS £1,730,000 (2004: £1,961,000)

Although the level of external clinical and preclinical spending was lower in 2005 than in 2004, the balance of expenditure between the programmes followed a broadly similar distribution.

	2005 £'000	2004 £'000	2003 £'000
External clinical & preclinical costs			
TroVax development	939	1,155	964
MetXia development	140	181	716
ProSavin development	469	484	651
Other preclinical programmes	182	141	55
Total external clinical & preclinical cost	1,730	1,961	2,386

External clinical and preclinical costs are expected to be higher in 2006 and 2007, with the planned start of the Phase III study of TroVax in renal cell carcinoma. The overall cost of the RCC Phase III study is estimated to be approximately £28 million over the period 2005 to 2009. If a development and commercialisation collaboration for TroVax is secured, then the cost borne by Oxford BioMedica could be largely offset by income or other funding.

ADMINISTRATION EXPENSES £2,865,000 (2004: £2,791,000 EXCLUDING EXCEPTIONAL COSTS)

Excluding the exceptional reorganisation cost incurred in 2004, administration costs over the period 2003 to 2005 have been in a range approximately £2.8 million to £2.9 million per annum. This level is not expected to change significantly in the short term.

REORGANISATION COSTS

Reorganisation costs of £1,568,000 in 2004 (2005: nil) comprised redundancy costs, asset write-downs and loss on disposal, fees related to the granting of a sub-lease and an onerous lease provision. Provision was made for the present value of the anticipated rental shortfall to the end of the lease in 2012. In 2005, £74,000 was released from the provision, covering the deficit for the year on the sublease.

GRANT INCOME £135,000 (2004: £364,000)

Grant income in 2005 was £135,000. The level of grant support has been declining from a peak in 2003. Many of the grant programmes from the UK government and the European Commission are designed to support applied research. The reduction in grant income from this source reflects the evolution of Oxford BioMedica's focus from research to product development. Grant income has also been received from charitable organisations. In particular, from patient groups and research institutes that are dedicated to the diseases that the Company's development portfolio is addressing. In addition to traditional grant support, there is a growing trend for organisations to support preclinical and clinical trials by directly sponsoring or carrying out studies. This latter support is not reflected in the Group's financial accounts. In 2005 two new grants were awarded by the UK Department of Health and the UK Motor Neurone Disease Association, which together could amount to £950,000 over three years. The Group has experienced delays of more than 24 months in payment of some government and EC grants, which is reflected in the high debtor level of £516,000 at the year end (2004: £405,000). Since the year end, £407,000 of accrued grant income was received.

	2005 £'000	2004 £'000	2003 £'000
Grant income			
UK Government (Eureka, Link, DoH)	73	179	443
European Community framework 5&6	14	48	71
Charity grants	48	137	155
Total grants	135	364	669
Debtor at year end for grants	516	405	244

NET INTEREST RECEIVED £938,000 (2004: £1,158,000)

The Group places its cash on deposit for periods of up to 12 months and generates interest on those deposits. The maturity profile of deposits is intended to match planned patterns of expenditure. As a result of the share issue in December 2005, the year end balance on deposit was considerably higher in 2005 than 2004 (£43,632,000 vs. £22,377,000). However, taking account of the timing of the 2005 fund raising, the average balance invested during 2005 was actually lower than the year before, at £19,555,000 (2004: £26,570,000). Interest rates were higher in 2005 at an average 4.8% (2004: 4.4%). Total interest receivable in 2005 was £969,000 (2004: £1,171,000). Interest payable and similar charges of £31,000 (2004: £13,000) relate mainly to the unwinding of the discount on the Group's lease provision. The Group has no debt.

	2005 £'000	2004 £'000	2003 £'000
Net interest receivable			
Interest receivable - bank	955	1,171	711
Interest receivable - other	14	-	-
Interest payable	(31)	(13)	-
Net interest receivable	938	1,158	711
Average balance on deposit in the year	19,955	26,570	19,118
Average interest on deposits	4.77%	4.40%	3.62%

TAX CREDIT £1,210,000 (2004: £884,000)

The UK operating subsidiary Oxford BioMedica (UK) Limited is entitled to claim R&D tax credit. The credit is based on certain eligible expenses, to which a 50% mark-up and a tax rate of 16% is applied. The R&D tax credit in any year cannot exceed the total amount of payroll tax (Income Tax and National Insurance) paid in the year.

The US subsidiary BioMedica Inc. supplies services to the UK subsidiary subject to a 5% mark-up, generating a low level of taxable income in the USA. The net tax credit for 2005 was £1,210,000 (2004: £884,000).

Tax credit	2005 £'000	2004 £'000	2003 £'000
UK R&D tax credit	1,276	885	1,197
Overseas tax payable	(66)	(1)	-
Deferred tax	-	-	6
Net tax credit	1,210	884	1,203
Debtor for R&D tax credit	1,175	1,685	1,200

The dip in UK tax credit in 2004, relative to 2005 and 2003, reflected a downward adjustment made in that year of £115,000 to prior years' R&D credit estimates. The 2005 tax credit reflected a positive £101,000 prior year adjustment on resolution of the claims for 2001 to 2004. As a result of a hold on payment of tax credits in 2004, last year's debtor for R&D tax credit was unusually high at £1,685,000. The review of claims by HM Revenue & Customs was completed in 2005, and a total of £1,786,000 was received in the year (2004 cash received: £400,000). Tax payable in 2005 was £66,000 (2004: £1,000). The 2005 figure included a prior year adjustment of £23,000 relating to 2004.

INTANGIBLE ASSETS £1,641,000 (2004: £1,627,000)

The 2005 balance sheet contains significant intangible assets as a result of adopting IFRS. Under IFRS, purchased intellectual property rights are capitalised as intangibles and either amortised or reviewed for impairment annually. No amortisation has been charged to date, as the products underpinned by the intellectual property are not yet available for commercial use. Under UK GAAP the costs of purchased intellectual property rights were written off in the accounting period in which they were incurred, with the exception of certain intellectual property rights acquired by the Group at inception, which were capitalised as intangibles and amortised over ten years. By re-classifying expenditure previously written off, intangibles of £86,000 at 31 December 2004 under UK GAAP were increased to £1,627,000. A further £14,000 was capitalised in 2005.

RECEIVABLES £1,777,000 (2004: £1,618,000) AND PAYABLES £2,180,000 (2004: £1,741,000)

Trade and other receivables and trade and other payables were both higher in 2005 than in 2004 – receivables by £159,000 and payables by £439,000. Recoverable VAT (identified in the accounts as 'other tax receivable') was £118,000 higher than 2004, principally due to inclusion of VAT on share issue expenses in the year end debtor. New developments in VAT law in 2005 allowed the Company to recover VAT on the costs of share issues. As described above, the debtor for grant income was £111,000 higher than last year at £516,000. Accruals at December 2005 were £325,000 higher than 2004. The most significant increase was in accrued costs for external clinical and preclinical studies, which were £184,000 higher than 2004.

SHARE ISSUES IN 2005

On 15 December 2005 the Company completed a major fund raising, comprising an underwritten open offer for 27,007,869 shares (one new share for every 14 existing shares), an institutional placing of 81,792,131 shares, and a subscription by our collaborative partner Sigma-Aldrich for 11,528,041 shares, all at 25p per share. The open offer allowed shareholders to apply for allocations in excess of their basic entitlement to the extent that other open offer shares were not taken up. Overall, 80.54% of the open offer shares were taken up, and the balance was placed by Evolution Securities with institutions. There was strong demand for the institutional placing, which was significantly oversubscribed. Total proceeds of the December 2005 share issue before costs were £30,082,000. Net of costs the issue raised £28,013,000. Sigma-Aldrich's shareholding represents 2.3% of the issued share capital at the end of 2005.

Also, during 2005 a total of 6,016,006 shares were issued on the exercise of share options, raising cash of £1,038,000 for the Company.

CASH & DEPOSITS £43,817,000 (2004: £22,417,000) AND CASH BURN £7,665,000 (2004: £9,692,000)

Following the placing, open offer and subscription in December 2005, the total of cash, cash equivalents and available for sale investments (bank deposits) was £43,817,000 (2004: £22,417,000). This provides the Group with the financial resources to continue with the development of its products, including starting its Phase III trial of TroVax, while negotiating product collaborations from a position of relative strength.

Under IFRS the format of the cash flow statement is changed. Management's measure 'cash burn' comprises the total of net cash used in operating activities and net capital expenditure (proceeds of sale of property, plant and equipment, purchases of property, plant and equipment and purchases of intangible assets). Cash burn was dramatically better at £7,665,000 in 2005 (2004: £9,692,000). The year on year reduction was £2,027,000. The largest part of this, £1,386,000, was due to receipt of tax credits. The 2003 claim was only partly paid in 2004. In 2005 the balance of the 2003 claim, together with the whole of the 2004 claim, was paid. The rest of the improvement, £641,000, was principally due to lower operational net cash outflows and working capital movements.

If the Group goes on to finance the Phase III development of TroVax through 2006, it is likely that the 2006 cash burn will be considerably higher than 2005. Whether this happens will depend on a number of currently uncertain factors, including the timing and structure of a collaborative deal for TroVax.

FINANCIAL OUTLOOK

With the present strong financial position, the Group is well placed to create further value through the development and commercialisation of its product pipeline and platform technology.