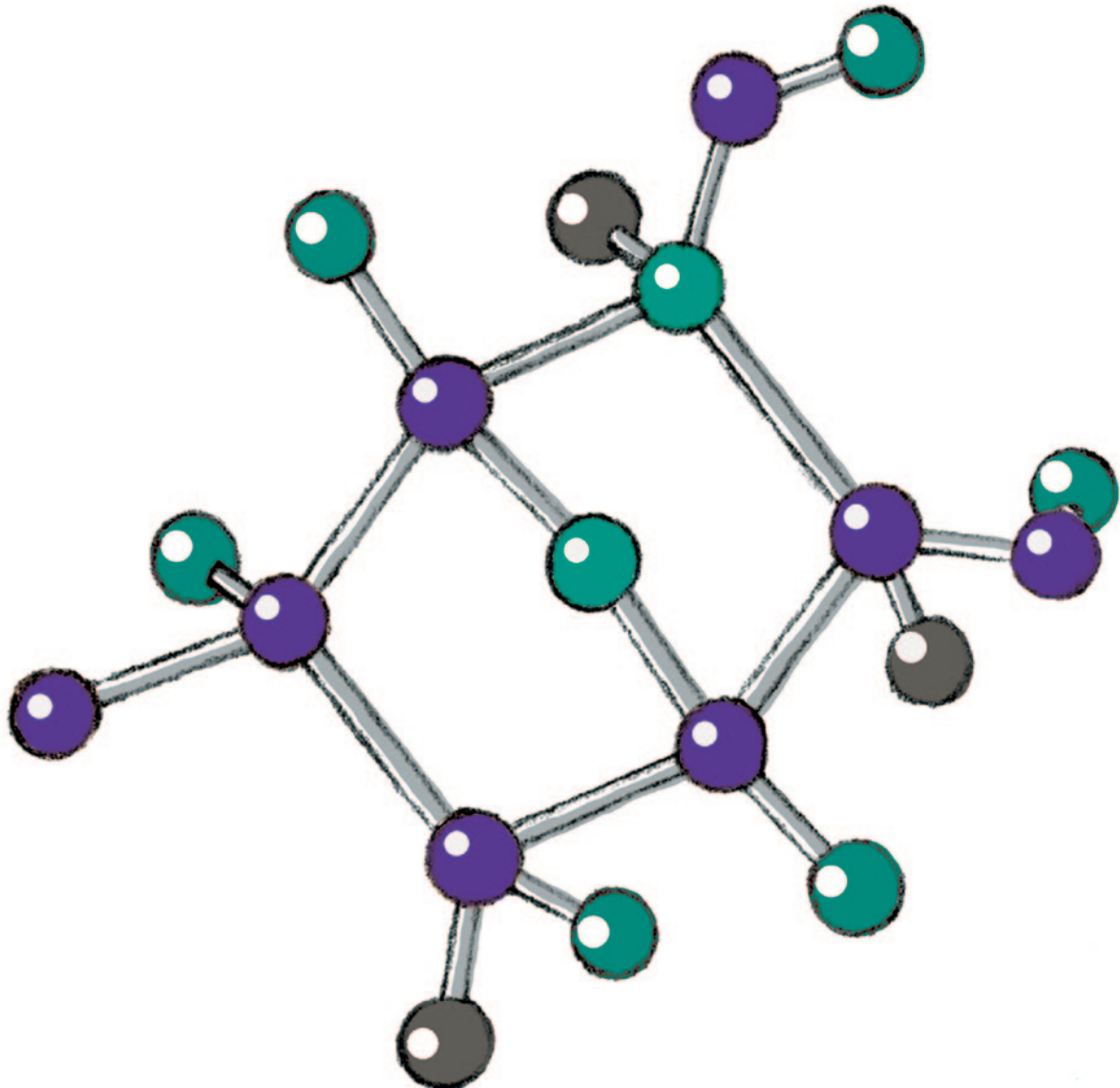


Biotechnology

Industry Position Survey April 2011



Welcome

Contents

Key findings of the survey	3	Demographics	9
Background	4	Survey participants	10
Survey findings - Sentiment	5	About AusBiotech	11
Survey findings - Financing	6	About Grant Thornton	11
Survey findings - Government policy	7		

It's vital we formally seek views from the industry's leaders based on experience, knowledge and political insight to gain a comprehensive picture of the Australian biotechnology industry.

Dr Anna Lavelle
Chief Executive Officer
AusBiotech Ltd



For the Australian biotechnology industry to be supported it must first be understood. This survey is an important step in gaining that understanding and laying a foundation to secure greater support.

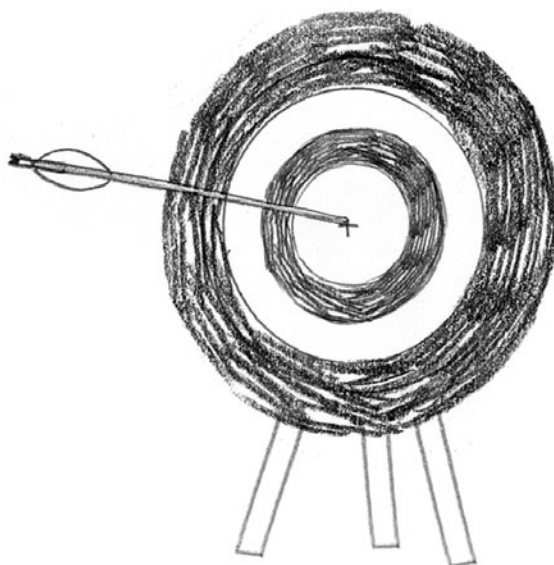
Michael Cunningham
Head of Life Sciences
Grant Thornton Australia



Key findings of the survey

Welcome to the annual Biotechnology Industry Position Survey. This research has been conducted as part of both AusBiotech and Grant Thornton's ongoing commitment to the industry.

- Business sentiment is optimistic with 2010 characterised as either a good or excellent year by 56% of respondents, 75% expecting their business to grow and 67% confident to extremely confident that the Australian industry will grow during 2011.
- Expansionary employment strategies were indicated by the majority of respondents, with 52% of companies intending to hire more staff this year.
- Despite an optimistic assessment of their business and the industry, only 13% of respondents indicated that the Australian operating (economic and public policy) environment was conducive to growing a biotechnology company, while 52% indicated that the operating environment was working against the industry.
- 23% of respondents indicated that they had less than 12 month's funding available and 58% indicated that they are considering or will raise capital during the current year.
- The overwhelming majority of listed respondents indicated their current share price undervalues their company.
- The significant delay associated with the Research and Development Tax Credit legislation announced in the 2009/2010 Federal Budget was identified by 61% of respondents as an area of frustration and the most concerning public policy issue at a Federal level. 60% said that the passing of the legislation will help their business and that they want access to it as soon as possible.
- 76% of respondents identified support from state governments as an issue of concern.



Background

The annual Biotechnology Industry Position Survey asks the industry's CEOs to provide views and information to identify trends, issues and build metrics.

At a glance

AusBiotech's representation and promotion of the biotechnology industry continues on impactful and critical issues. While input on public policy is a year-round and core part of AusBiotech's work, it is vital to formally seek views from the industry to get a comprehensive picture of the Australian industry from its leaders.

The annual biotechnology industry position survey, proudly supported by Grant Thornton, sought the views of CEOs on the operating environment within the industry.

The results enable evidence-based statements about the magnitude of issues and trends and what would be likely to address them.

At any given time there are a raft of biotech-related issues and developments, where policy is vital to the industry's progression and future.

Industry snap shot

Australia continues to be the leading location for biotechnology companies in the Asia-Pacific region with almost 400 biotechnology companies and 600 medical technology companies.

The industry is characterised by many small to medium private and public companies. There are currently more than 100 ASX-listed life sciences companies.

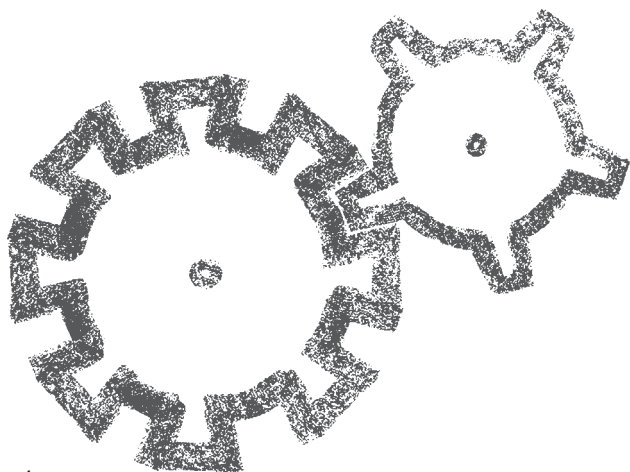
The survey

The survey results provide an independent perspective of the impact of the current economic and regulatory environment on the biotechnology industry.

Issues investigated include:

- Sentiment and constraints
- Funding and market capitalisation
- Government policy

AusBiotech and Grant Thornton would like to express appreciation to those who participated in the survey.



Survey findings - Sentiment

Despite some operating environment concerns, companies entered 2011 expecting both their business and the industry to grow.

The biotechnology industry has grown significantly in recent years, despite the challenges of the global financial crisis. During 2010 the Australian biotechnology industry saw some stunning results and 2011 is looking promising.

Standout companies in 2010 were Acrux Limited ('Acrux') and Mesoblast Limited. They provided show-stopping news in 2010 with both achieving landmark deals worth hundreds of millions of dollars. Acrux also achieved FDA approval for its Axiron treatment making it one of only a handful of Australian companies to achieve this milestone and one of only 21 drug approvals for the US regulatory body for the year. Undoubtedly these standout performances have helped to contribute to the improved investment sentiment. At the end of 2010 the BioShares Index was showing a 3.1% gain for the year. [Source: BioShares, 6 January 2011, Edition 391]

Optimistic outlook for 2011

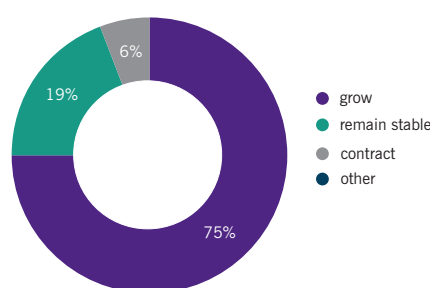


Figure 1: Expectations for the business in 2011

The improving investment sentiment is reflected in the survey findings with 75% of respondents expecting their business to grow and 67% confident to extremely confident that the Australian industry will grow during the current year. The optimistic outlook for the current year continues the positive sentiment of respondents when reflecting on 2010. 56% of respondents identified 2010 as a good or excellent year.

Expansionary employment strategies

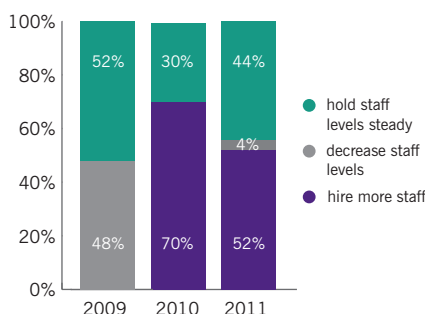


Figure 2: Employment outlook

The positive sentiment extends to expansionary employment strategies for 2011, with only 4% (0%:2010) of companies expecting to reduce staff numbers. This result can be contrasted with the 2009 survey by AusBiotech of members where 48% of those surveyed expected to reduce staff numbers and no company indicated they expected to hire.

Economic and public policy environment

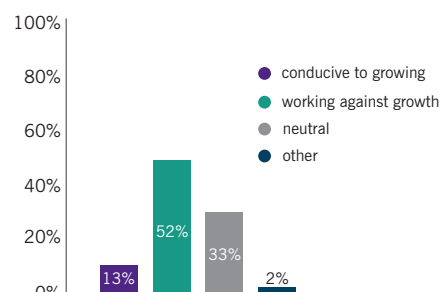


Figure 3: Operating environment sentiment

Despite an optimistic assessment of their business and the industry, only 13% of respondents indicated that the Australian operating (economic and public policy) environment was conducive to growing a biotechnology company, while 52% indicated that economic conditions and/or public policy were working against the industry. The negative sentiment appears to stem from a combination of access to capital and government policy issues, each of which have been discussed in this report.

Survey findings - Financing

Sources of funding

The economic and financial crisis has dramatically affected the ability of businesses across all industries to raise capital. IPO markets have remained all but closed to new deals except the highest-profile offerings. Venture Capital (VC) funding has become increasingly scarce and private equity has been unable to put together the kind of leveraged deals that were in vogue in the mid-part of the last decade.

Few industries have been more challenged by this environment than the biotechnology industry. With a unique business model, high investment needs and lengthy development and approval cycles to revenue, access to capital is paramount.

Delays to the Research and Development Tax Credit legislation, on top of the abolishment of the Federal Government's Commercial Ready and Commercial Ready Plus programs in the 2008 Budget, have further complicated funding strategies for biotechnology companies.

Fortunately, historical sources of funding from equity markets have shown some significant signs of improvement in recent times. The December 2010 quarter recorded the highest quarterly performance in BioShare's five-year data collection period in terms of capital raisings. Capital raisings for the year totalled \$554 million, which was lower than 2009 (\$672 million), but significantly higher than the \$183 million raised in 2008. [Source: BioShares, 6 January 2011, Edition 391]

Funding requirements

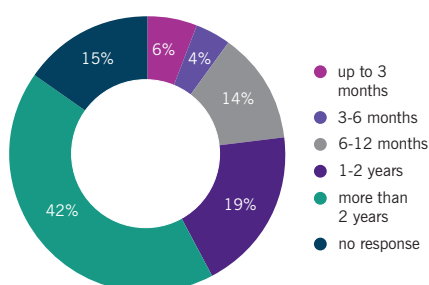


Figure 4: Cash on hand

Based on current cash burn, 24% of companies surveyed were holding less than 12 months' cash and a further 19% were holding between one and two years' cash. Consequently, it was no surprise that 58% of respondents planned to raise capital during 2011. For listed respondents a rights issue was the preferred current funding strategy. Private companies identified VC funding as the primary funding solution. The majority of respondents indicated either research and development or further funding of commercialisation strategies as the primary use of any funds raised.

R&D spend planned for 2011

The forecast combined spend for the 52 responding companies is \$631.4 million this year on research and development. Not surprisingly, the small group of companies with a market capitalisation of over \$1 billion accounts for the bulk of this with \$436 million.

However, the notable result is the group of 36 companies with a market capitalisation of up to \$20 million, which have plans to spend a combined \$82 million.

Market capitalisation & ASX listing

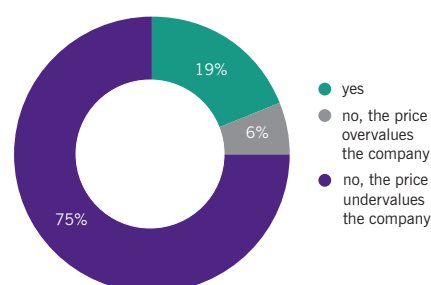


Figure 5: Does the company's share price accurately reflect the value of the company?

Of the survey respondents, 38% are listed on the ASX. In evidence of the global nature of biotechnology, 11% are listed on both the ASX as well as overseas markets and a further 11% are only listed on overseas markets despite identifying as part of the Australian industry. Despite an overwhelming majority (75%) of listed respondents identifying their company's current share price as undervaluing the business, only 8% of listed companies identified the prospect of delisting from the ASX.

Survey findings – Government policy

60% of biotechnology companies said the passing of the R&D Tax Credit legislation will help their business and they want to access it as soon as possible.

Federal concerns

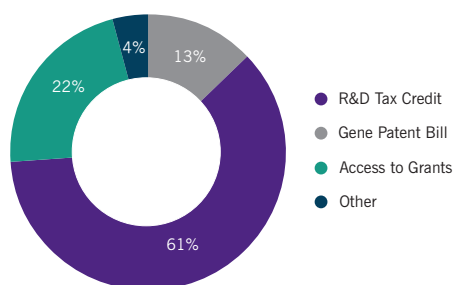


Figure 6: Concerning public policy issues

The significant delay associated with the Research and Development Tax Credit legislation announced in the 2009/2010 Federal Budget was identified by 61% of respondents as the most concerning issue at a federal level for the industry. 60% of respondents identified they would like to access the tax credit immediately. Interestingly 15% were not sure how or if the tax credit legislation would impact them.

The Research and Development Tax Credit legislation has been stalled in Parliament since early 2010, and is still awaiting debate in the Senate – despite a vocal and urgent need from the biotechnology industry. The 45% refundable component for companies with turnover under \$20 million is still a much-needed addition to the flow of capital into the industry.

Continuing the theme of access to capital to fund research and development programs, 22% said that access to funding, especially grants such as those offered via Commercialisation Australia, was a major issue of concern and rated at number two.

Only one respondent identified the proposed changes in the Patent Amendment Bill 2010 as having a positive impact, while 23% said the impact was likely to be seriously adverse or negative. A number remained unsure of what the impact might be.

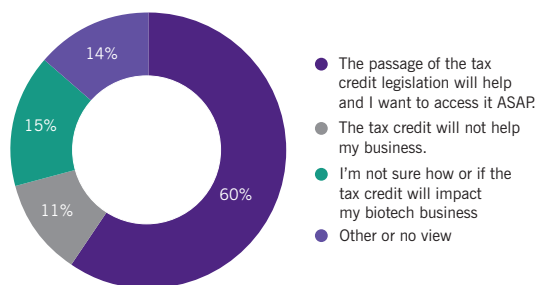


Figure 7: Impact of the R&D Tax Credit legislation

Employee remuneration

In addition to cash remuneration, companies are utilising non-cash based remuneration strategies such as shares (23%) and share options (52%). This again reiterates the importance of public policy in assisting companies to stretch their available cash.

The Federal Government's recent amendments to employee share schemes were identified as negative by 32% of respondents. This is particularly significant when you consider that 85% of respondents utilise non-cash based payment remuneration strategies including shares, options and performance rights.



Survey findings – Government policy

76% of respondents said support for biotechnology from state governments was the most concerning and important state-based issue.

State concerns

In terms of state-based issues, the survey asked an open ended question requesting respondents detail the issue which is most concerning at a state level in the coming year and why.

There was praise for Victoria's track record in biotechnology, and concern that it should continue under the newly elected government (November 2010) to maintain Victoria as the leading state for biotechnology companies overall.

Conversely, respondents from New South Wales (19) were highly critical of the New South Wales State government, despite the state being home to the majority of the country's large pharmaceutical companies and the largest and fastest-growing hub of medtech companies (note that data was collected prior to the New South Wales state election in March 2011).

Continuing on the theme in New South Wales, 12% of respondents said their primary concern was the January New South Wales Health directive doubling the requirement for clinical trial indemnity insurance cover from \$10 million to \$20 million.

This move puts the state out of line with other states and raised the cost of conducting trials in New South Wales in contrast to the rest of the country. Respondents said the move would make them reconsider using clinical trial sites in NSW.

What you said to us

Respondents said they were most concerned by:

'The lack of interest and awareness of biotech by state government, which limits the potential of initiatives at all levels.'

'The lack of policy and financial incentives within all state governments.'

'Little or no apparent support for biotech companies in my state.'

'The absence of resources, schemes, policies and programs for innovation and its commercialisation by small industry.'

'Just having biotechnology remain a key platform for government and not losing it in all other issues.'

'Continuing support for biotech.'

'Victoria has done a great job pushing the biotech barrow'

Demographics

About the survey

This is the inaugural joint Biotechnology Industry Position Survey by AusBiotech and Grant Thornton. The survey was conducted via mail and email during February and March 2011. It was open to all ASX-listed life sciences companies and AusBiotech member companies, including unlisted companies. This survey draws on similar surveys conducted by AusBiotech over recent years.

Issues explored by the Biotechnology Industry Position Survey were identified by AusBiotech and Grant Thornton's Life Sciences team. Enquiries regarding this survey may be directed to:

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Analysis of respondents

Companies were asked to submit information regarding their financial status, issues impacting their business, the current outlook and expected plans for the future.

Responses were received from 37 ASX listed and 15 unlisted companies.

More than 70% of respondents were CEOs, Managing Directors, or Executive Directors of the company, and the remaining respondents were senior executives, including COOs and VPs.

The combined market capitalisation (for listed companies) and estimated company value (for unlisted companies) of those who answered this survey was \$112,301.2 billion, of which 59% were under \$50 million each and 12% over \$1 billion.

The major (52%) identified area of business was therapeutics followed by medical technology (devices and diagnostics) (27%).

We also noted that 57% of companies confirmed they are manufacturing in Australia.

Survey participants

The following participants agreed to disclose their names:

Acrux	Genetic Technologies
Advent Pharmaceuticals	Genzyme Australia
AMEC-Zektin	Grey Innovation
Amgen Australia	Ground Zero Pharmaceuticals
Anteo Diagnostics	IDE
ANU Connect Ventures	IDT Australia
ATP Innovations	Invetech
Avita Medical	Kendle
Benitec	Nanosonics
Biodiem	Neural Diagnostics
Biogen Idec Australia (affiliate of Biogen Idec Inc.)	Pharmaxis
Bioplatforms Australia	Planet Innovation
Biota Holdings	Progen Pharmaceuticals
Biotron	Proteomics International
Broadvector	ResMed
Cellestis	Reproductive Health Services
Clinical network Services	SDI
Cryosite	Sigma Aldrich
CSL	Sypharma
Epichem	Spinifex Pharmaceuticals
Genera Biosystems	UCB Australia

*AusBiotech and Grant Thornton wish to thank the remaining respondents, who did not wish to be named here.

About AusBiotech

AusBiotech is Australia's biotechnology industry organisation, which represents over 3,000 members, covering the human health, agricultural, medical devices and diagnostics, functional foods, environmental and industrial sectors in biotechnology.

AusBiotech is dedicated to the development, growth and prosperity of the Australian biotechnology industry, by providing initiatives to drive sustainability and growth, outreach and access to markets, and representation and support for members nationally and around the world.

AusBiotech is a not-for-profit organisation, which has representation in each Australian state and in various special interest sectors. Active state committees and advisory groups provide a national network to support members and promote the commercialisation of Australian bioscience in the global marketplace.

AusBiotech has been working on behalf of members since its inception 25 years ago as the Australian Biotechnology Association, which 15 years later changed its name to AusBiotech.

AusBiotech's membership base includes biotechnology companies, ranging from start-ups to mature multinationals, research institutes and universities, specialist service professionals, corporate, institutional, individual and student members from Australia and overseas.

About Grant Thornton

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Grant Thornton member firms share a commitment to provide high quality services to all our clients. With over 30,000 people working in more than 100 countries worldwide, our clients have access to specialist local knowledge wherever their business takes them. In Australia, we have offices in Adelaide, Brisbane, Melbourne, Perth and Sydney.

Grant Thornton has significant experience in the Life Sciences industry.

We can provide the guidance, coordination and advice that can only be obtained by being part of a world wide network.

We offer advice on all aspects of your business from merger and acquisition advisory, capital raising, valuation services, audit and assurance, Sarbanes Oxley compliance, tax compliance and research and development tax credits and business transformation and integration services.

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