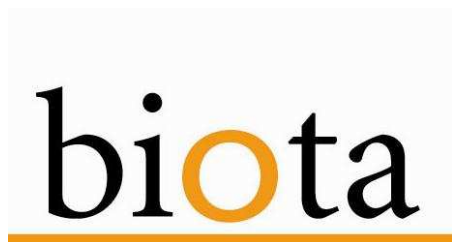


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Biota Holdings Limited reported its first ever profit with the announcement today of net profit of \$4.1 million for the first half ended December 2006, versus a loss of \$8.7 million in the previous corresponding period. Sales revenue rose to \$19.0 million from \$1.6 million, driven primarily by growth in Relenza royalties to \$12.7 million from \$0.7 million in the previous corresponding period and up from \$4.7 million in the second half of the June 2006 financial year. What's the expected trend in Relenza royalties in the current second half and going forward?

**CEO Peter Cook**

We're assuming our Relenza royalties in the second half will be similar to the first half. That's based on the only concrete advice GlaxoSmithKline has given its shareholders, which is that it would increase annual Relenza production capacity to 15 million courses. Our analysis of reported sales for the December quarter implies GSK's Relenza production is tracking at about that rate.

There have been unconfirmed reports that GSK may double or treble capacity during calendar 2007, and although we have no knowledge of the potential timing, we know GSK's North Carolina facility has been commissioned.

On the marketing front, there have been very encouraging indications for Relenza in the market. The drug's role in government pandemic stockpiling is strengthening with growing concern about the emergence of Tamiflu-resistant flu strains. There are also concerns about the side effects of Tamiflu, particularly its effect on the central nervous system, and the package insert for

the drug has been updated to include a precaution on neuropsychiatric effects in the US market.

In the UK, a recent Royal Society and Academy of Medical Sciences report said the government should be moving towards a 50:50 mix of Tamiflu and Relenza in the national stockpile, which at the moment is 100 percent Tamiflu.

All this makes the environment look very encouraging for Relenza over the next two to four years.

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You expect the company to deliver a net profit for the full year ending June 2007. What assumptions underlie this forecast and can you provide more specific guidance regarding the level of profit expected?

**CEO Peter Cook**

We're expecting the second half to be profitable. I'd remind you we're a research and development company; what we're doing is experimental and occasionally the results don't quite stack up the way we want, so we need to be a little guarded. For that reason I'm not prepared to quantify our expectations.

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As at the end of December 2006 Biota had receivables of \$19.8 million, up from \$5.9 million six months earlier. Of the total, \$15.7 million related to Relenza royalties. How does this reconcile with the \$12.7 million Relenza revenue booked in the first half and what level of cash royalties will Biota receive before the end of June?

**CEO Peter Cook**

GSK pays us the Relenza royalties annually in arrears on a year ending April. So at the end of December we held eight months of receivables, whereas we reported six months of sales. We'll receive the cash payment for the royalties late in June, so we'd typically end the financial year, and start the new financial year, with high cash reserves.

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Operating cash flow remained negative in the first half, with cash outflow of \$3.9 million, compared with \$3.6 million in the previous corresponding period. You've previously indicated you expect underlying operations to be cash flow positive in the current year. Do you remain on track to achieve this?

**CEO Peter Cook**

As we've just discussed, the first-half cash outflow was a function of the fact our Relenza royalties are paid annually and are not in sync with our financial year. Because the cash payment of the royalties will occur in the second half, we expect to be cash positive for the second half, and for the full year.

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Excluding litigation expenditure, Biota's total expenses increased to \$12.8 million in the first half, up from \$9.5 million in the previous corresponding period. This primarily reflects increases in product development expenses to \$4.7 million from \$3.2 million, and in business development expenses to \$2.4

million from \$0.4 million. In which specific areas was the spending increase focused and do you expect further increases in expenses in the current second half?

**CEO Peter Cook**

The project development expenses reflect the fact that all our projects are accelerating. The first half saw the costs associated with the completion of the Phase I trials of our Human Rhinovirus (HRV) drug as well as expenditure under our programs with MedImmune and Boehringer Ingelheim(BI).

In the case of business development expenses, the largest single item was \$1.8 million in third-party payments to the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the Victorian College of Pharmacy, which are beneficiaries of a portion of our Relenza royalties. There has also been a slight increase in our overall business development expenses relating to the setting up of our Australian business development group under Leigh Farrell, who joined us in April 2006. We're rebuilding activity here having closed down our development group in the US in the first half of the previous financial year.

As we work toward or get deeper into clinical trials, we'd expect our overall level of expenditure to go up. The expenditure increases can sometimes be quite lumpy as you insert significant costs to prepare for and set up clinical trials, while at other times, for example in the interpretation phase of the studies which essentially uses in-house resources, the increase is more in line with underlying costs. It's difficult to provide a clear picture of exactly when those expenditures will occur.

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In the first half, litigation expenses increased to \$3.4 million from \$2.2 million, with Biota's legal action against GSK in the discovery phase of the court process. Under the action, Biota is claiming damages for GSK's failure to use best endeavours in the development and marketing of Relenza. What's the outlook for litigation costs this year?

**CEO Peter Cook**

We've been in the discovery phase for about 18 months and it's required a reasonably consistent level of expenditure, involving the receipt of nearly 300,000 documents from GSK, cataloguing them and understanding their content. Until recently work on the case has been reasonably constant and predictable but we're now drawing up our revised statement of claim, which has to be lodged with the court by the end of March, and beginning preparation of our witness statements, which have to be lodged by August. We'd expect to have litigation expenditure in the range of \$7.5 million to \$8 million this financial year.

I must stress that the case is being managed on a project-like basis within the organisation. We're clear about our revised statement of claim, we're very comfortable with what we've found in the discovery documents and we'll continue to work toward getting GSK into the court on the scheduled date of April 1, 2008.

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First-half sales revenue included research and partnering income of \$5.9 million, up from \$0.1 million, reflecting contributions from the licensing deals with MedImmune and BI. What were the respective contributions of the two deals and what are the expected contributions in the current second half?

**CEO Peter Cook**

Contractually we're limited as to what we can say, and it would be inappropriate for me to break out the two programs. Our accounts show an aggregate of the programs and our level of expenditure in them and given we commenced the BI deal very late in the half, the results predominantly relate to the MedImmune program. You could expect a similar level of activity progressively building in the BI program in the future.

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The BI program, under a research collaboration and licensing agreement you announced in November, relates to Biota's nucleoside analogues to treat hepatitis C (HCV). Can you comment on the work on this project to date?

**CEO Peter Cook**

The particular compounds under study in the BI program are novel nucleosides that are well protected in terms of the intellectual property and have a known mechanism of action during the replication cycle of HCV. They are however, very early in their development phase, and there's a lot of work needed before we could contemplate taking them to human studies.

We've enjoyed considerable contact with BI in setting up the administrative, scientific and intellectual property aspects of the program. With the experience of three or four licensing deals in the past, we're very encouraged by the calibre of the people on the BI side and the efficiency with which they're approaching the project.

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You've previously indicated Biota could potentially receive a milestone payment this year if the Respiratory Syncytial Virus (RSV) compounds you're developing under the licensing deal with MedImmune enter Phase I study. What's the current progress on the project and are the compounds still on track to go into Phase I before the end of June?

**CEO Peter Cook**

Before we take a compound into the clinic, it has to undergo a "stage gate review," which looks at the accumulated data built up during the pre-clinical studies. The RSV stage gate review is still on track to occur before the end of the year. This will be a major review point, so it would be inappropriate to anticipate what the review group will conclude.

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In August Biota received the first instalment of US\$2.4 million of a US National Institutes of Health award of up to US\$8.5 million for the development of the FLUNET long-acting neuraminidase inhibitors. How did this impact reported revenue and earnings in the first half, what's the progress

in developing the FLUNET compounds and what's the expected contribution of the program to full year revenue and earnings?

**CEO Peter Cook**

Under AIFRS, such grants are recorded as deferred income and taken up as revenue as the work's completed. In the first half the project was not particularly active as we received the grant only in August. Reflecting that, revenue was just over \$100,000. We've geared up for the project now and expect it to be a lot more active in the second half.

The FLUNET compounds are dimeric Relenza-like materials, and the funding we received from the NIH is to get the compounds through all pre-clinical studies. This is very much early stage drug development, where basic scientific information relating to the materials is generated. It's not a stage where there are visible or easily recognisable project milestones to be delivered. Hopefully we'll be laying the foundations for future clinical success.

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When do you anticipate announcing the results of the recently completed Phase Ib trial your human rhinovirus (HRV) drug BTA798? What will be the next steps in the compound's development if the trial is successful?

**CEO Peter Cook**

We expect to release full Phase I results by the end of March. The next step in the development of the drug will be a challenge study, which is an unusual Phase II trial.

Normally in a Phase II trial the drug is tested on people who are actually sick, the Phase I trials having established the safety profile and basic pharmacokinetics of the drug in healthy people. In a challenge study we give healthy adults the disease and see how effective the drug is in terminating the viral infection. Because human rhinovirus (HRV) in otherwise healthy adults is a reasonably minor, self limiting disease, they can be artificially infected without putting them at serious risk. This means it's a relatively inexpensive and reasonably fast study to demonstrate clinical efficacy.

We'll still have to take the drug through Phase II studies in real patients, with larger numbers of people from different age and ethnic groups and different pre-existing diseases. We've always indicated we'll get to that point before we'd consider licensing the drug.

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As at the end of December 2006, Biota had no debt and cash in hand of \$41.9 million, down from \$46.2 million six months earlier. With the prospect of positive cash flow going forward, would you see the need to retain this level of cash on the balance sheet? When might you consider returning cash to shareholders in the form of a dividend?

**CEO Peter Cook**

As you're aware, Relenza royalties are the single largest contributor to our revenue and cash, but they're received only once a year, in arrears. The cash

received at the end of one year therefore sustains our operations over the coming year, so the cash isn't as abundant as the balance sheet makes it seem.

When you consider the cash requirements of the business, you have to bear two things in mind. First, the operating cash requirements of the business are growing, which we've discussed in some detail earlier. The second issue is that we need to carry a high level of cash reserves during the period we're in litigation with GSK so our financial security can't become an issue with the court or create any doubt about our ability to see the case through.

On the matter of dividends, the point I'd make is that the nature of our work requires reasonably long time lines. We've demonstrated we can deliver value over time, for example Relenza, MedImmune, BI – all long-term! Shareholders are investing in a company with long-term promise in its product pipeline. Therefore, I'd think those shareholders would be happy to see our resources used to maximise the long-term value of our portfolio.

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Thank you Peter.

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For more information about Biota, visit [www.biota.com.au](http://www.biota.com.au) or call CEO Peter Cook on +61 3 9915 3720 or CFO Damian Lismore on +61 3 9915 3721.

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