

31 July 2008

## Change of target price

**Buy**

**Important:** The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

**Mod-High Volatility**

**Target price**  
A\$1.29 (from A\$1.24)

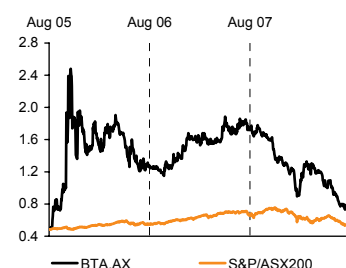
**Price**  
A\$0.725

**Short term (0-60 days)**  
n/a

BTA80731

**Price performance**

|              | (1M) | (3M)  | (12M) |
|--------------|------|-------|-------|
| Price (A\$)  | 0.77 | 1.05  | 1.72  |
| Absolute %   | -5.8 | -31.3 | -57.8 |
| Rel market % | -0.5 | -22.1 | -47.8 |
| Rel sector % | -6.9 | -32.3 | -54.7 |



**Market capitalisation**  
A\$124.83m (US\$118.23m)

**Average (12 mth) daily turnover**  
A\$0.54m (US\$0.48m)

RIC: BTA.AX, BTA AU  
Priced at close of business 31 Jul 2008.  
Source: Bloomberg

**Analysts**

**Scott Power**  
+61 7 3334 4884  
scottp@abnamromorgans.com.au

**Tanya Solomon**  
+61 7 3334 4521  
tsolomon@abnamromorgans.com.au

ABN AMRO Morgans Limited  
(A.B.N. 49 010 669 726) AFSL235410  
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# Biota Holdings

## On time clinical results

**BTA, in conjunction with its partner, has announced successful Phase II results for its lead program. The result was delivered on time and planning is now underway for a Phase III trial.**

**Key forecasts**

|   | FY06A | FY07A  | FY08F    | FY09F  | FY10F  |
|---|-------|--------|----------|--------|--------|
| EBITDA (A\$m)                             | -12.6 | 16.6   | -9.52 ▼  | 23.4   | 8.23   |
| Reported net profit (A\$m)                | -11.3 | 20.2   | -8.71 ▼  | 23.5   | 9.68   |
| Normalised net profit (A\$m) <sup>1</sup> | -11.3 | 17.9   | -8.76 ▼  | 23.6   | 9.66   |
| Normalised EPS (c) <sup>1</sup>           | -6.28 | 9.94   | -5.12 ▼  | 13.8   | 5.65   |
| Normalised EPS growth (%)                 | n/a   | n/a    | n/a      | n/a    | -59.0  |
| Dividend per share (c)                    | 0.00  | 0.00   | 0.00     | 0.00   | 0.00   |
| Dividend yield (%)                        | 0.00  | 0.00   | 0.00     | 0.00   | 0.00   |
| Normalised PE (x)                         | n/m   | 7.34   | n/m      | 5.30   | 12.9   |
| EV/EBITDA (x)                             | n/m   | 3.77   | n/m      | 2.21   | 4.70   |
| Price/net oper. CF (x)                    | -17.1 | 6.26   | 1227.3 ▲ | 5.57 ▼ | 8.64 ▼ |
| ROIC (%)                                  | n/a   | 1506.1 | -93.2    | 796.5  | 86.6   |

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

1. Pre non-recurring items and post preference dividends

Accounting Standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

year to Jun, fully diluted

**On time results – moving ahead nicely**

BTA announced its second generation influenza treatment (a long acting neuraminidase inhibitor - LANI) has successfully completed its Phase II trial showing favourable outcomes (safety, tolerability and efficacy data). This programme is partnered with Japanese Group Daiichi-Sankyo. As a result, a Phase III trial is planned to start at the end of CY08 in Asia. The length of the trial is difficult to predict and will depend in part on the severity of the influenza season.

**Sensitivity to probability of success and valuation increase**

Our valuation is most sensitive to changes in our probability of success assumptions for the LANI program. Following today's announcement we will move to 20% (was 15%). Our valuation has increased to A\$1.29 (from A\$1.24). BTA is in a solid cash position with an estimated cash balance of >\$60m, post the GSK payment (expected mid August). Also we have increased the legal costs post the GSK settlement in FY08 and as a result our forecast loss has increased to A\$8.7m (from A\$6.8m).

**So what is next...**

The next milestone is the HRV programme which is a potential treatment and prevention of human rhinovirus (common cold) in high risk patients. Following the successful completion of the Phase Ib human safety and tolerability trial of the HRV drug in 2007, BTA is expected to commence in 3QCY08 a Phase IIa challenge study before partnering the project. The design of the challenge study is complex as it involves managing two materials, the drug itself and the inoculum, which is used to infect an otherwise healthy patient, both of which have associated regulatory issues.

**Investment view - Buy maintained - price target up**

Our DCF valuation has increased to A\$1.29 (was A\$1.24) as a result of the change to our probability of success calculation. The key assumptions in deriving the valuation include a risk-free rate of 6.5%, WACC of 14.6% and a terminal growth rate of 3.5%. Our price target is set at the same level. Risks include a delay in partnering key projects or failure to achieve key end points.

**Important disclosures regarding companies that are the subject of this report and an explanation of recommendations and volatility can be found at the end of this document.**

**Table 1 : Milestone to focus on**

| Product | Timing | Milestone                                      | Impact   |
|---------|--------|--|----------|
| Relenza | Jul-08 | Mediation result with GSK                      | Achieved |
| LANI    | Jul-08 | Results of Phase II trial                      | Achieved |
| HRV     | 3QCY08 | Start Phase IIa challenge trial - dosing stage | Positive |

Source: ABN AMRO Morgans

**BTA – financial summaries**

| Year to 30 Jun (A\$m)             | AIFRS 2006A  | AIFRS 2007A  | AIFRS 2008F  | AIFRS 2009F  | AIFRS 2010F  | Closing price (A\$)                | 0.725        | Price target (A\$)         | 1.29         |              |              |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|------------------------------------|--------------|----------------------------|--------------|--------------|--------------|
| <b>Income statement</b>           |              |              |              |              |              | <b>Valuation metrics</b>           |              |                            |              |              |              |
| Divisional sales                  | 12.7         | 54.8         | 38.7         | 71.9         | 54.7         | Preferred methodology              | DCF          | Val'n (A\$)                | \$ 1.29      |              |              |
| Total revenue                     | 12.7         | 54.8         | 38.7         | 71.9         | 54.7         | <b>DCF valuation inputs</b>        |              |                            |              |              |              |
| <b>EBITDA</b>                     | <b>-12.6</b> | <b>16.6</b>  | <b>-9.5</b>  | <b>23.4</b>  | <b>8.2</b>   | Rf                                 | 6.50%        | 10-year rate               | 6.50%        |              |              |
| Associate income                  | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | Rm-Rf                              | 4.50%        | Margin                     | 2.0%         |              |              |
| Depreciation                      | -1.0         | -1.2         | -3.0         | -3.0         | -3.0         | Beta                               | 1.80         | Kd                         | 8.50%        |              |              |
| EBITA                             | -13.6        | 15.4         | -12.5        | 20.4         | 5.3          | CAPM (Rf+Beta(Rm-Rf))              | 14.6%        | Ke                         | 14.6%        |              |              |
| Amortisation/impairment           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | Equity (E/EV)                      | 100.0%       | NPV cash flow (A\$m)       | 169.0        |              |              |
| EBIT                              | -13.6        | 15.4         | -12.5        | 20.4         | 5.3          | Debt (D/EV)                        | 0.0%         | Minority interest (A\$m)   | 0.0          |              |              |
| EBIT(incl associate profit)       | -13.6        | 15.4         | -12.5        | 20.4         | 5.3          | Interest rate                      | 8.50%        | Net debt (A\$m)            | -52.0        |              |              |
| Net interest expense              | 2.3          | 2.5          | 3.7          | 3.1          | 4.4          | Tax rate (t)                       | 30.0%        | Investments (A\$m)         | 0.0          |              |              |
| Pre-tax profit                    | -11.3        | 17.9         | -8.8         | 23.6         | 9.7          | Franchising credit                 | 100.0%       | Equity market value (A\$m) | 221.0        |              |              |
| Income tax expense                |              |              |              |              |              | <b>WACC</b>                        | 14.6%        | Diluted no. of shares (m)  | 171.0        |              |              |
| After-tax profit                  | -11.3        | 17.9         | -8.8         | 23.6         | 9.7          |                                    |              | <b>DCF valuation (A\$)</b> | <b>1.29</b>  |              |              |
| Minority interests                |              |              |              |              |              |                                    |              |                            |              |              |              |
| <b>NPAT</b>                       | <b>-11.3</b> | <b>17.9</b>  | <b>-8.8</b>  | <b>23.6</b>  | <b>9.7</b>   | <b>Multiples</b>                   |              | <b>2007A</b>               | <b>2008F</b> | <b>2009F</b> | <b>2010F</b> |
| Significant items                 | 0.0          | 2.3          | 0.0          | 0.0          | 0.0          | Enterprise value (A\$m)            | 72.1         | 82.2                       | 61.2         | 48.1         |              |
| NPAT post abnormals               | -11.3        | 20.2         | -8.7         | 23.5         | 9.7          | EV/Sales (x)                       | 1.3          | 2.1                        | 0.9          | 0.9          |              |
|                                   |              |              |              |              |              | EV/EBITDA (x)                      | 4.3          | -8.6                       | 2.6          | 5.8          |              |
| <b>Cash flow statement</b>        | <b>2006A</b> | <b>2007A</b> | <b>2008F</b> | <b>2009F</b> | <b>2010F</b> | EV/EBIT (x)                        | 4.7          | -6.6                       | 3.0          | 9.1          |              |
| EBITDA                            | -12.6        | 16.6         | -9.5         | 23.4         | 8.2          | PE (pre-goodwill) (x)              | 7.9          | -15.3                      | 5.7          | 13.9         |              |
| Change in working capital         | 2.6          | -0.5         | 5.8          | -4.0         | 1.8          |                                    |              |                            |              |              |              |
| Net interest (pd)/rec             | 2.3          | 2.5          | 3.7          | 3.1          | 4.4          | <b>At target price</b>             | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |              |
| Taxes paid                        | 0.0          | 2.3          | 0.0          | 0.0          | 0.0          | EV/EBITDA (x)                      | 9.6          | -17.8                      | 6.3          | 16.4         |              |
| Other oper cash items             | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | PE (pre-goodwill) (x)              | 13.0         | -25.2                      | 9.4          | 22.9         |              |
| Cash flow from ops (1)            | -7.7         | 21.0         | 0.1          | 22.4         | 14.5         |                                    |              |                            |              |              |              |
| Capex (2)                         | -1.9         | -0.9         | -1.2         | -1.4         | -1.4         | <b>Comparable company data (x)</b> |              | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |              |
| Disposals/(acquisitions)          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | Avexa                              | EV/EBITDA    | -2.2                       | -3.8         | -35.5        |              |
| Other investing cash flow         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | Year to 30 Jun                     | EV/EBIT      | -2.2                       | -3.8         | -34.6        |              |
| Cash flow from invest (3)         | -1.9         | -0.9         | -1.2         | -1.4         | -1.4         |                                    | PE           | -4.0                       | -5.3         | -72.3        |              |
| Incr/(decr) in equity             | 31.8         | 1.4          | -9.0         | 0.0          | 0.0          | Pharmaxis                          | EV/EBITDA    | -6.6                       | -5.6         | -10.5        |              |
| Incr/(decr) in debt               | -0.8         | 0.0          | 0.0          | 0.0          | 0.0          | Year to 30 Jun                     | EV/EBIT      | -6.4                       | -5.3         | -8.9         |              |
| Ordinary dividend paid            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |                                    | PE           | -10.8                      | -9.2         | -15.7        |              |
| Preferred dividends (4)           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |                                    |              |                            |              |              |              |
| Other financing cash flow         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | <b>Per share data</b>              | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |              |
| Cash flow from fin (5)            | 31.0         | 1.4          | -9.0         | 0.0          | 0.0          | No. shares                         | 180.0        | 171.0                      | 171.0        | 171.0        |              |
| Forex and disc ops (6)            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | EPS (cps)                          | 11.2         | -5.1                       | 13.8         | 5.7          |              |
| Incr/(decr) cash (1+3+5+6)        | 21.4         | 21.5         | -10.1        | 21.1         | 13.1         | EPS (normalised) (c)               | 9.9          | -5.1                       | 13.8         | 5.6          |              |
| <b>Equity FCF (1+2+4)</b>         | <b>-9.6</b>  | <b>20.1</b>  | <b>-1.1</b>  | <b>21.1</b>  | <b>13.1</b>  | Dividend per share (c)             | 0.0          | 0.0                        | 0.0          | 0.0          |              |
|                                   |              |              |              |              |              | Dividend payout ratio (%)          | 0.0          | 0.0                        | 0.0          | 0.0          |              |
| <b>Balance sheet</b>              | <b>2006A</b> | <b>2007A</b> | <b>2008F</b> | <b>2009F</b> | <b>2010F</b> | Dividend yield (%)                 | 0.0          | 0.0                        | 0.0          | 0.0          |              |
| Cash & deposits                   | 46.2         | 62.2         | 52.0         | 73.1         | 86.2         | <b>Growth ratios</b>               | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |              |
| Trade debtors                     | 5.9          | 9.4          | 4.8          | 8.9          | 6.7          | Sales growth                       | 331.1%       | -29.5%                     | 86.1%        | -23.9%       |              |
| Inventory                         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | Operating cost growth              | 51.0%        | 26.2%                      | 0.8%         | -4.2%        |              |
| Investments                       | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | EBITDA growth                      |              |                            |              | -64.8%       |              |
| Goodwill                          |              |              |              |              |              | EBITA growth                       |              |                            |              | -74.2%       |              |
| Other intangible assets           | 0.0          | 13.4         | 11.9         | 10.3         | 8.6          | <b>Operating performance</b>       | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |              |
| Fixed assets                      | 5.5          | 5.2          | 5.0          | 5.0          | 5.0          | Asset turnover (%)                 | 18.3         | 11.5                       | 20.5         | 13.1         |              |
| Other assets                      | 0.0          | 2.3          | 2.3          | 2.3          | 2.3          | EBITDA margin (%)                  | 30.3         | -24.6                      | 32.5         | 15.0         |              |
| <b>Total assets</b>               | <b>57.6</b>  | <b>92.5</b>  | <b>76.0</b>  | <b>99.6</b>  | <b>108.9</b> | EBIT margin (%)                    | 28.1         | -32.3                      | 28.4         | 9.6          |              |
| Short-term borrowings             | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | Net profit margin (%)              | 32.7         | -22.7                      | 32.8         | 17.6         |              |
| Trade payables                    | 4.0          | 6.0          | 7.3          | 7.3          | 7.0          | Return on net assets (%)           | 21.5         | -23.2                      | 26.4         | 6.1          |              |
| Long-term borrowings              | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | Net debt (A\$m)                    | -62.2        | -52.0                      | -73.1        | -86.2        |              |
| Provisions                        | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | Net debt/equity (%)                | -86.9        | -96.7                      | -94.5        | -99.0        |              |
| Other liabilities                 | 6.6          | 14.9         | 14.9         | 14.9         | 14.9         | Net interest/EBIT cover (x)        | -6.1         | 3.3                        | -6.5         | -1.2         |              |
| <b>Total liabilities</b>          | <b>10.7</b>  | <b>20.9</b>  | <b>22.2</b>  | <b>22.2</b>  | <b>21.9</b>  | ROIC (%)                           | 1506.1       | -93.2                      | 796.5        | 86.6         |              |
| Share capital                     | 158.0        | 161.7        | 144.0        | 167.5        | 177.2        | <b>Internal liquidity</b>          | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |              |
| Other reserves                    | -0.1         | 0.6          | 0.6          | 0.6          | 0.6          | Current ratio (x)                  | 3.4          | 2.6                        | 3.7          | 4.2          |              |
| Retained earnings                 | -111.0       | -90.8        | -90.8        | -90.8        | -90.8        | Receivables turnover (x)           | 7.2          | 5.5                        | 10.6         | 7.0          |              |
| Other equity                      | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | Payables turnover (x)              | 7.6          | 7.3                        | 6.7          | 6.5          |              |
| Total equity                      | 46.9         | 71.5         | 53.8         | 77.3         | 87.0         |                                    |              |                            |              |              |              |
| Minority interest                 |              |              |              |              |              |                                    |              |                            |              |              |              |
| Total shareholders' equity        | 46.9         | 71.5         | 53.8         | 77.3         | 87.0         |                                    |              |                            |              |              |              |
| <b>Total liabilities &amp; SE</b> | <b>57.6</b>  | <b>92.5</b>  | <b>76.0</b>  | <b>99.6</b>  | <b>108.9</b> |                                    |              |                            |              |              |              |

Source: Company data, ABN AMRO Morgans forecasts

RESEARCH TEAM

|                  |   |  |                    |   |                 |
|------------------|---|--|--------------------|---|-----------------|
| ROGER LEANING    | - | Head of Research                       | ROSS MACLEOD CAREY | - | Analyst         |
| ROBERT BITOMSKY  | - | Analyst                                | BELINDA MOORE      | - | Senior Analyst  |
| MATT BROOKS      | - | Retail Strategy                        | SCOTT POWER        | - | Senior Analyst  |
| CHRIS BROWN      | - | Senior Analyst                         | TOM SARTOR         | - | Analyst         |
| FIONA BUCHANAN   | - | Senior Analyst                         | TAMARA STRETCH     | - | Analyst         |
| NICK HARRIS      | - | Analyst                                | TANYA SOLOMON      | - | Analyst         |
| MICHAEL KNOX     | - | Director of Strategy & Chief Economist | REBECCA SULLIVAN   | - | Retail Strategy |
| JAMES LAWRENCE   | - | Fixed Interest Analyst                 | SAM TURNER         | - | Analyst         |
| JOSEPHINE LITTLE | - | Analyst                                |                    |   |                 |

ABN AMRO MORGANS OFFICES

|                 |                |                  |                |
|-----------------|----------------|------------------|----------------|
| <b>BRISBANE</b> | (07) 3334 4888 | CHATSWOOD        | (02) 9411 8988 |
| BUNDABERG       | (07) 4153 1050 | COFFS HARBOUR    | (02) 6651 5700 |
| BURLEIGH HEADS  | (07) 5520 8788 | GOSFORD          | (02) 4325 0884 |
| CAIRNS          | (07) 4052 9222 | HURSTVILLE       | (02) 9570 5755 |
| CALOUNDRA       | (07) 5491 5422 | MERIMBULA        | (02) 6495 2869 |
| CAPALABA        | (07) 3245 5466 | NEUTRAL BAY      | (02) 8969 7500 |
| CHERMSIDE       | (07) 3350 9000 | NEWCASTLE        | (02) 4926 4044 |
| EMERALD         | (07) 4988 2777 | NEWPORT          | (02) 9998 4200 |
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| GOLD COAST      | (07) 5592 5777 | PARRAMATTA       | (02) 9615 4500 |
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| MACKAY          | (07) 4957 3033 | SCONE            | (02) 6544 3144 |
| MILTON          | (07) 3114 8600 | WOLLONGONG       | (02) 4227 3022 |
| MISSION BEACH   | (07) 4088 6188 | <b>MELBOURNE</b> | (03) 9947 4111 |
| NOOSA           | (07) 5449 9511 | BERWICK          | (03) 9796 2676 |
| REDCLIFFE       | (07) 3897 3999 | BRIGHTON         | (03) 9519 3555 |
| ROCKHAMPTON     | (07) 4922 5855 | CAMBERWELL       | (03) 9813 2945 |
| SPRING HILL     | (07) 3833 9333 | GEELONG          | (03) 5222 5128 |
| SPRINGWOOD      | (07) 3808 7588 | TRARALGON        | (03) 5176 6055 |
| SUNSHINE COAST  | (07) 5479 2757 | WARRNAMBOOL      | (03) 5559 1500 |
| TOOWOOMBA       | (07) 4639 1277 | <b>CANBERRA</b>  | (02) 6232 4999 |
| TOWNSVILLE      | (07) 4771 4577 | <b>ADELAIDE</b>  | (08) 8464 5000 |
| YEPPOON         | (07) 4939 3021 | <b>PERTH</b>     | (08) 9261 0888 |
| <b>SYDNEY</b>   | (02) 8215 5000 | BUNBURY          | (08) 9791 9188 |
| ARMIDALE        | (02) 6770 3300 | <b>DARWIN</b>    | (08) 8981 9555 |
| BALLINA         | (02) 6686 4144 | <b>HOBART</b>    | (03) 6236 9000 |
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Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

REGULATORY DISCLOSURES

Subject companies: BTA.AX.

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