

ACRUX (ACR) - ASX ANNOUNCEMENT

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2012 AGM CHAIRMAN'S ADDRESS

Acrux initially received widespread recognition as one of the very rare biotechnology companies in Australia to undertake a successful product development and registration program for Axiron[®]. Some observers of the stock have had a relative lack of familiarity with US product introduction and growth strategies, which has led to negativity in the market recently. Concern has been expressed about issues which are standard, short term variables during new product launches. These variables are most visible in high growth markets with significant profits being generated and defended by the incumbents. The competition for market share has been robust, with blanket direct to consumer marketing to protect existing market franchises. If Axiron's launch is analysed dispassionately, the progress achieved to date is strong, with well over 10% market share achieved in the first 18 months of promotion. This has moved Axiron from being the fifth entrant to a crowded and very competitive market to third position. We expect Axiron to move to second place in 2013, which will be a significant early achievement in a market that we expect to continue growing strongly.

Entry into markets where there are dominant and well established players is more challenging than entry into a novel market, and the process requires experience, skill and patience. Axiron's launch was facilitated through Acrux having the benefit of a top ten US pharmaceutical company which has the appropriate status with insurers, a wealth of experience with successful product launches and market development, and a leading position in the men's health sector. Lilly launched Cialis[®] 5 years after Viagra[®], which dominated the erectile dysfunction market. 8 years later Cialis matched Viagra with annual sales of \$2 billion. Product differentiation, understanding the needs of patients and physicians in men's health and highly effective direct to consumer marketing have been important factors.

Market reaction to the progress achieved by Axiron in these early days has been underwhelming, with a highly disproportionate emphasis on the short term quarterly net sales and the high gross to net sales deductions necessary during the market introduction phase. There is no reason why Axiron should not achieve parity with Androgel in terms of both insurer formulary coverage and gross to net deductions and we fully expect this to happen. The growth of the market and the long term market share achieved by Lilly in both the United States and in the rest of the world are far more important determinants of Acrux's value.

Express Scripts/Medco is the leading pharmacy benefit manager (PBM) in the US, and in July this year Axiron was upgraded to Tier 2 on its formulary used by 35 million lives. CVS Caremark is the second ranked PBM in the US. CVS recently announced that from 1 January 2013 Axiron would be added as a preferred product to its formulary used by 22 million lives, while Androgel would be removed. This is positive news for Acrux and we expect Lilly to achieve further significant gains among PBMs and insurance funds over the coming twelve months. We expect the gross to net sales deductions to reduce steadily during that period.

Market sentiment on Acrux has been very focused on Axiron. There has been some conjecture that Acrux has effectively become, to use an old market phrase, a 'Post Office Box'. As Mark Twain said on one of the two occasions that people had acted prematurely, 'The report of my death was an exaggeration'. Acrux is far from dead; we have been actively pursuing ex-US distribution of our estradiol product, as well as improving our US distribution arrangements. Our first veterinary health product has commenced its market entry process and we are vigorously pursuing product opportunities with our delivery technology in a material market sector. We are also investigating a product opportunity that is highly complementary to Axiron. We have maintained the core competencies that enabled us to bring Axiron to the market, while maintaining a low and efficient cost base. These are not the actions of a company in either stasis or decline.

Our immediate future prospects are primarily influenced by three factors:

- Continuing market growth in the US
- Growth in Axiron's market share
- Moving to formulary coverage equivalent to Androgel

Medium term our position will be enhanced by:

- The global commercialisation of Axiron
- The Axilla patent
- Advancing another new product to market
- The cessation of royalty payments to Monash University in 2017

We remain confident that Acrux is well placed on all of these issues.