

April 2007



Dear shareholders

Welcome to the first edition of our new shareholder newsletter. It has been a busy six months for the Benitec Board and management, and a particularly active and successful time for Benitec. My enthusiasm to join Benitec has proven to be well placed. We have learnt a lot about the Benitec business, instigated a full restructure and moved to a low cost model of co-investment and out licensing. We have secured capital for the company to fund operations through the non renounceable rights issue that many of you participated in recently. We have also made good progress with business development with the Sigma/Pfizer research use only deal and the sale of the Hepatitis C programme to Tacere Therapeutics. Progress on the Phase I HIV trial has gone well with the investigational new drug application (IND) filed earlier this year.

Benitec's new management is paying special attention to improving communication with shareholders including those long-term investors who stayed with us through very difficult times. As part of our commitment this investor newsletter will be sent to you on a regular basis to update you on the progress of the company. Further efforts to keep you well informed include shareholder briefings later this year in Melbourne, Brisbane, Sydney and overseas, a more informative annual report and the redevelopment of the website where investors have access to the latest share price, ASX announcements, media articles and company information as well as online access to this newsletter.

The continuing improvement in Benitec's share price after its collapse last year is an endorsement of the recovery plan implemented last year by the new Benitec team. This plan is securing the company's future. By mid-March, the price of Benitec shares was about \$0.15 cents with a company market capitalisation of about \$35 million. At its lowest point last July Benitec shares traded at only \$0.02c with a market capitalisation closer to \$4 million.

Benitec's recovery also reflects promising international developments in the commercialisation of RNA interference (RNAi) technology and the strength of our diverse portfolio of patents relating to therapeutic use of DNA-directed RNA interference in humans.

Benitec's rights issue has raised \$5.3 million in new capital to improve our ability to negotiate new licence agreements and protect our formidable patent assets. Financial markets' analysts have already shown much greater confidence in Benitec's future. The rights issue allows us to more actively pursue therapeutic opportunities within our extensive portfolio.

I look forward to updating you on our progress to rebuild shareholder value for Benitec shareholders. Thank you for your support

Yours faithfully
Sue MacLeman
Chief Executive Officer

Fully underwritten rights Issue raised \$5.3 m

Benitec has raised \$5.3 million in a fully underwritten, non-renounceable rights issue. All shareholders have had the opportunity to participate. The rights issue, fully underwritten by Findlay & Co Stockbrokers, offered shareholders one share at \$0.10 cents and a free option for every 4.4 shares already owned. Options are exercisable at \$0.15 cents and will expire in 2011. The funds raised will:

- Provide Benitec with essential working capital to build and support its active out-licensing collaboration discussions
- Expand and defend its already strong IP position in the RNAi field, including funding on going patent litigation in the US
- Fund co-investment in projects such as Benitec's Phase I HIV study in Los Angeles

Benitec cited in *Nature Biotechnology* on RNAi

In March this year a news feature in US-based journal *Nature Biotechnology* described pharmaceutical company Merck's \$US1.1 billion purchase of Colorado-based Sirna Therapeutics as a show of the potential in gene silencing therapies. The article noted that only three years earlier Sirna had a share price of 23 cents.

The article was about RNAi describing it as a powerful, precise tool for selectively switching off genes with short double-stranded RNA molecules.

Acknowledging Benitec's ownership of "... most of the IP in this area", the article said: Benitec lays claim to a seminal US patent... that describes "genetic constructs for delaying or repressing the expression of a target gene".

As an indication of the therapeutic potential of RNAi technology, Merck paid \$US7 a share, or twice the prevailing market price of Sirna's shares.

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Pfizer granted license from Sigma-Aldrich for use of Benitec's Technology

In January Sigma-Aldrich, one of Benitec's licensee companies granted Pfizer Inc. a worldwide non-exclusive research use only license in the human field of ddRNAi, excluding the development of ddRNAi as a human therapeutic to patents or rights owned or co-owned by CSIRO and Benitec.

The research use only license will enable Pfizer to use ddRNAi in undertaking human research activities globally.

This partnership not only further supports the use of ddRNAi over other gene silencing technologies but also provides increased revenue streams to Benitec along with Sigma-Aldrich and CSIRO.

Benitec already has a similar deal in place with Merck.

Re-Examination Update

Nucleonics initiated a third party Re-examination at the U.S. Patent and Trademark Office ("USPTO") on 4 October 2004, providing the USPTO with art it asserted invalidated U.S. Patent No. 6,573,099 ("099 Patent"). The USPTO rejected the claims based on the provided art. Benitec successfully overcame the references, and the USPTO withdrew all rejections but instituted new rejections on additional art it had uncovered. Benitec then filed a response, which it believed overcame the rejections of Record.

Nucleonics then requested a second Re-examination, adding art it asserted invalidated the '099 Patent. The USPTO merged the two Re-examinations and recently sent out an Office Action. The USPTO withdrew most of the earlier rejections it made, modified other rejections, and added rejections based on the art Nucleonics provided in its second Re-examination request.

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LEADER IN GENE SILENCING TECHNOLOGY

Benitec has reviewed this new material and believes it does not raise any issues that would preclude patentability of the invention disclosed in the '099 Patent. Benitec also believes it has strong arguments for overcoming the art of record. Benitec this month requested a two-month extension to prepare its response to the USPTO. Benitec has already had very productive discussions with representatives of the USPTO's Re-examination Unit and Office of Patent Legal Administration. The two-month extension will permit Benitec to acquire certain documents and also consider the most expedient legal and commercial outcomes.

Nucleonics v. Benitec litigation

On 29 September 2005, the Delaware District Court granted Benitec's motion to dismiss the *Benitec v. Nucleonics* litigation based on the Supreme Court's *Merck v. Integra* decision. Nucleonics appealed the District Court decision to the Court of Appeals for the Federal Circuit.

The appeal will decide whether the District Court has jurisdiction to permit the *Benitec v. Nucleonics* litigation to continue to be prosecuted in view of the *Merck v. Integra* decision holding that the safe harbour provision of 35 U.S.C. §271(e) broadly protects research and development work activities used to support activities submitted to the FDA. After briefing, on 6 December 2006, the Federal Circuit heard oral argument on the appeal.

On 7 January 2007, the Supreme Court issued a decision in *Medimmune v. Genentech*, which addressed the question of whether a license holder could file suit against a licensor without breaching the license first. The Federal Circuit has requested Nucleonics and Benitec to provide supplemental briefing on what effect, if any, the Supreme Court's decision in the *Medimmune* case has on Nucleonics' Appeal. This has been done and we now await the final judgement.

Phase 1 HIV trials in California

Benitec is continuing its other major research project, to develop a therapy that aims to permanently suppress Human Immunodeficiency Virus (HIV) in AIDS patients. More than 40 million people worldwide have AIDS. The IND application was submitted in late January to the U.S. Food and Drug Administration (FDA), which has requested one additional safety test for the virus lot and additional information regarding several reagents used in the virus manufacture. The additional virus safety study is underway and will take approximately 4 weeks to complete. Pending final submission of these results to FDA and approval to proceed we expect recruitment to commence soon.

This IND study being undertaken in collaboration with City of Hope is entitled "A pilot study of safety and feasibility of stem cell therapy for AIDS lymphoma using stem cells treated with lentivirus vector-encoding multiple Anti-HIV RNA's". The vector, rHIV7-sh1-TAR-CCR5RZ was manufactured by City of Hope's Center for Biomedicine and Genetics.

Pre-clinical trials indicated the therapy could inhibit replication of the virus in the long term without adverse side effects while avoiding the emergence of multi-drug-resistant mutants that arise under the intense selection pressure of HAART therapy.

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Benitec's board and new management team are giving high priority to commercial discussions with existing and potential licensees aimed at developing further research collaborations in areas where RNAi technology may offer novel, or unique, therapeutic opportunities.

The long and short of RNAi technology

The RNAi pathway is present in every cell of virtually every multi-cellular organism and likely evolved as an innate mechanism for cellular defense against double-stranded RNA (dsRNA) viruses, in addition to interferon-regulated antiviral pathways. The dsRNA molecules are processed into small interfering RNA (siRNA) by a cytoplasmic enzyme called Dicer, which helps guide the siRNA to the RNA-induced silencing complex (RISC). RISC mediates sequence-specific binding to its corresponding messenger RNA (mRNA) and catalyzes the cleavage and destruction of the mRNA, leading to gene silencing. RNAi drugs are designed to exploit this natural mechanism and destroy rogue genes or viral genomes.

RNAi can be introduced into cells by either the "expressed" or the "delivered" route, depending on whether the RNAi molecules are expressed in cells or whether they are delivered exogenously. Benitec's patented DNA-directed RNA interference (ddRNAi) technology uses the "expressed" pathway. It involves inserting a DNA construct into a cell, triggering the production of double stranded RNA (dsRNA) that is immediately cleaved into small interfering RNA (siRNA), which then enter the cellular RNAi pathway and causes the destruction of the rogue gene or viral genomes. Benitec researchers were the first to demonstrate RNAi in mammals.

ddRNAi

Benitec specialises in therapeutic applications of RNAi that require long-lived or permanent suppression of unwanted genes or viruses. This is only feasible with DNA-directed RNAi (ddRNAi) technology in which Benitec has a commanding patent position. ddRNAi involves inserting 'designer' RNAi transgenes permanently and stably into self-perpetuating cell lines that renew the body's tissues or organs such as bone marrow stem cells and brain stem cells. Areas of interest include infectious diseases, cancer and other life threatening chronic diseases.

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Board of Directors

Peter Francis, Non-Exec. Chairman: Extensive experience in technology commercialisation, founder & Non-exec. Director of Boron Molecular Pty Ltd. and Non-exec. Director of Xceed Biotechnology and PolyNovo Biomaterials Pty Ltd.

Dr Michael Dalling, Non Exec. Director: Involved in several biotech start ups, mergers & acquisitions. Chairman of Biomedical Imaging Development CRC, Chairman of Biomass Conversion Technologies Pty Ltd, Director of Neural Diagnostics Pty Ltd, Member in the General Division of the Order of Australia in 2006 for services to biotechnology industry.

Dr Ken Reed, Non Exec. Director: Scientific founder of Benitec. Was founding director of QABC as well as co-founder of Advanced Breeding Technology Pty. Ltd, first company to commercialize PCR. Previously Deputy Chair of the inaugural Australian Biotech Advisory Council and served on the board of Australian Government's Genetic Manipulation Advisory Committee as well as the Australian Genome Research Facility.