

PEP *Talk*

QUARTERLY REPORT TO SHAREHOLDERS
THREE MONTHS ENDED 31 DECEMBER 2006

*Strong cash position to fund
ongoing clinical trials*

HIGHLIGHTS

- \$40 million cash balance at 31 December 2006 to fund advanced development programs
- Completion of second tranche of major international financing led by MPM Capital
- Successful establishment of US operations



Peplin

Pharmaceuticals for Life

THE DECEMBER QUARTER: MEDICAL JOURNAL REPORTS PEP005'S ANTI-CANCER ACTION

An international peer-reviewed immunology journal has published research demonstrating the anti-cancer mechanism of Peplin's lead compound PEP005.

The Journal of Immunology published by the American Association of Immunologists reported the research in its December 1, 2006 issue.

The article outlines how PEP005 kills tumours efficiently using two distinct and complementary mechanisms. The first is the direct and rapid killing of tumour cells; the second is the activation of the body's immune system, which identifies and destroys residual cancer cells.

PEP005 activates an abundant type of white blood cells known as neutrophils that migrate to the site of tumour cells. The drug also induces anti-cancer antibodies, which direct those neutrophils to target remaining tumour cells, ensuring long term eradication of the cancer and preventing relapse.

CEO Michael Aldridge said the publication provided international scientific recognition of PEP005's anti-cancer action. It may explain why PEP005 appeared to clear skin cancers "so rapidly and elegantly".

Researchers have long believed that neutrophils may be harnessed to help eradicate cancer cells, but this publication may provide the first evidence of the anti-cancer action of neutrophils following treatment with a chemotherapeutic agent.

The research was conducted by Peplin and the Queensland Institute of Medical Research in collaboration with the Medical Research Council Centre for Immune Regulation in the UK.

PEPLIN OPENS US OFFICE

Peplin opened its US office in Emeryville, California in the December quarter of 2006. Emeryville is located in the San Francisco East Bay Area.

CEO Michael Aldridge has relocated to the Emeryville office and will oversee the principal area of growth for the company as it builds its late stage drug development capabilities.

The company has previously outlined the strategic importance of North America: Peplin's products are being developed under INDs filed with FDA; and the country's large and sophisticated biotechnology capital markets allow later stage development companies to access the necessary capital at the lowest cost.

North America is also home to the most experienced pharmaceutical product development managers. Peplin has employed a team of senior executives to head up its medical, regulatory and operations functions in the US since incorporating Peplin Operations USA as a wholly owned subsidiary in June 2006.

Cheri Jones was appointed Vice President Regulatory Affairs and Dr Gary Patou was appointed to the position of Chief Medical Officer in June. Ms Jones has more than 25 years experience in drug development companies, including obtaining new drug application (NDA) approvals and working closely with FDA. Dr Patou also has broad experience managing pharmaceutical product development and applying for and obtaining NDA approvals.

In September Peplin employed Philip Moody as Chief Financial Officer. He is responsible for finance, accounting and administration as well as overseeing the development of Peplin's US operations.

Mr Aldridge said these appointments were "the first step in adding to our executive management team with relevant and demonstrated expertise in later stage drug development".

Peplin's head office remains in Brisbane and its research and manufacturing activities will continue to grow in Australia.

PEPLIN PRESENTS AT INTERNATIONAL HEALTHCARE CONFERENCE

Managing Director and CEO Michael Aldridge presented details of Peplin's dermatology drug development programs at an international healthcare conference in New York in November.

Mr Aldridge addressed an audience of institutional investors, venture capitalists and experts from the scientific and medical communities.

The aim of the annual Rodman & Renshaw Healthcare Conference is to bring together leaders of emerging growth companies with financial advisers and healthcare experts.

Mr Aldridge discussed the emerging market opportunity for Peplin's lead dermatological product PEP005 Topical for the treatment of actinic keratosis (AK) and non-melanoma skin cancers.

He outlined the success of clinical trials run during 2006 and confirmed that the drug does clear most skin lesions after just two days of treatment.

He also announced that Peplin had recently closed a \$40 million round of financing led by international healthcare investor MPM Capital.

SUMMARY DECEMBER QUARTER FINANCIALS

Cash flows	DECEMBER quarter (\$'000)	Last four quarters (\$'000)
Net operating cash flows	(4,144)	(15,106)
Net investing cash flows (excl. term deposits)	(30)	(1,354)
Net financing cash flows	12,368	37,579
Net increase / (decrease) in cash held	8,914	18,414
Cash position at end of quarter (incl. term deposits)	39,533	

- Cash-on-hand (including cash on short-term deposit) at 31 December 2006 totalled \$39.5 million, up from \$31.3 million at 30 September 2006.
- Net operating cash outflow during the quarter of \$4.1 million was invested primarily in Peplin's phase IIb AK clinical trial, pre-clinical toxicology and related activities.
- Net financing cash flows during the December quarter increased to \$12.4 million due to the receipt of proceeds from the second tranche of the international financing on 1 November 2006.

PLANS FOR THE MARCH 2007 QUARTER

- **Phase IIb actinic keratosis (AK) trial:** As at the date of writing, Peplin has initiated an Australasian phase II clinical trial to further evaluate the safety of its gel PEP005 Topical for the treatment of actinic keratosis (AK), otherwise known as sun spots.

The clinical trial, conducted at multiple sites in Australia and New Zealand, will examine the safety of the drug when applied to the face and scalp. In a complementary trial in the US, dermatologists are currently recruiting patients to trial the safety of the gel when applied to lesions on the arm, shoulder, chest, back or scalp.

Following results from these studies and subject to regulatory approval, Peplin plans to initiate a phase III clinical trial of PEP005 Topical to treat actinic keratosis.

The Australian trial will run in approximately eight clinical centres and include 40 to 60 patients. The drug will be applied to an area of skin containing four to eight typical AK lesions on two or three consecutive days.

The aim of the study is to determine the optimal tolerated regime of drug treatment on the face and scalp. It will also examine rates and effectiveness of lesion clearance.

- **Phase IIb superficial basal cell carcinoma (sBCC) trial:** As at the date of writing, Peplin has commenced a phase IIb trial to evaluate the maximum tolerated dose of PEP005 Topical in the treatment of sBCC. Drug will be applied by a trained healthcare professional to patients in the clinician's office.

The trial is being conducted in the US under Peplin's open IND with FDA.

- **Squamous cell carcinoma in situ (SCCIS) pilot clinical trial:** Peplin has completed enrollment of patients in its Australian pilot phase II clinical trial of PEP005 Topical for the treatment of SCCIS. The trial was initiated in May 2006 following positive results from the phase IIa clinical trial in superficial basal cell carcinoma (sBCC).

The study has been conducted by dermatologists at two sites in Queensland and one in NSW. Peplin expects to announce preliminary results in the first quarter of 2007.

Michael Aldridge
Chief Executive Officer
9 March 2007

COMPLETION OF INTERNATIONAL FINANCING

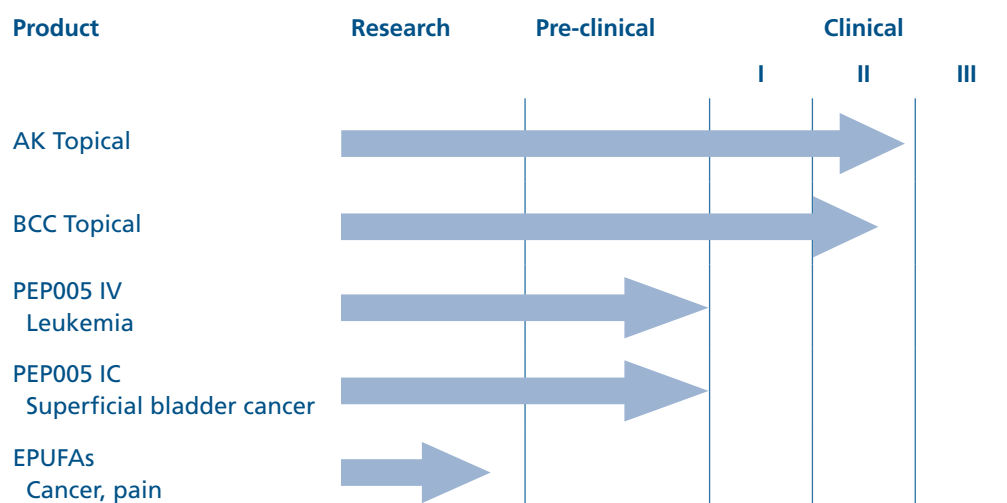
The second tranche of Peplin's \$40 million international financing deal closed in the final quarter of 2006.

The financing, led by global healthcare investor MPM Capital was structured in two equal tranches. The second tranche was contingent primarily on the company obtaining positive results in a standard skin safety trial called a skin sensitisation study.

According to Managing Director and CEO Michael Aldridge: "Having successfully passed this important performance milestone we now enjoy a very strong capital position to pursue the development of PEP005 Topical."

All investors in the international financing completed the second tranche. After closing the deal, Peplin had on issue approximately 184.5 million ordinary shares and 17.1 million options listed on the ASX.

PRODUCTS IN DEVELOPMENT



PEPLIN OVERVIEW

Vision

We are dedicated to the development of prescription therapeutic products which allow people to live healthier, happier and longer lives.

Peplin's vision is to deliver superior returns to shareholders through a focus on developing and commercialising therapeutic products for the global market.

Peplin's first goal is to exploit the skin cancer market by delivering a novel product for the treatment of skin cancer.

Business

Peplin Limited is a public company based in Brisbane, Australia, focused on the development and commercialisation of medical dermatology products. Its shares are listed on the Australian Securities Exchange (ASX) using the ticker PEP. The company is headquartered in Brisbane, Queensland with operations in Emeryville, California and a manufacturing facility in Southport, Queensland.

Technology

Peplin has a patent protected technology comprising a new class of naturally occurring molecules which show significant potential as anti-cancer agents for a wide range of human cancers. Peplin's lead compound in this technology is PEP005, which has demonstrated powerful anti-cancer effects by way of a unique mode of action, and Peplin is the first to take this class of molecule into clinical development. Peplin holds global proprietary rights to the use of PEP005.

Lead product

Peplin's lead compound is PEP005, the first in a new class of investigational agents. Peplin's lead product has shown significant promise in phase II clinical trials as a topical agent for the treatment of actinic (solar) keratosis (AK), a very common pre-cancerous lesion, and basal cell carcinoma (BCC), the most common form of skin cancer. Peplin believes the unique benefits of its lead product may include a very short course of therapy and a transient and favourable side effect profile.

Market opportunity

PEP005 Topical's market opportunity is significant. AKs are the most common pre-cancerous skin lesions worldwide and the treatment of AKs is the most common dermatologic procedure performed in the out-patient setting.

In the US each year there are about 8.2 million treatments for AK. The treatment of AK costs the US healthcare system approximately US\$1.2 billion annually. AK affects more than 58 million North Americans. The worldwide prevalence of AK is highest in Australia. AKs typically occur on sun damaged skin of Caucasians older than 40 years.

NMSC is the most common form of cancer worldwide. It affects more than 1.2 million people per year in the US. The treatment of non-melanoma skin cancer costs the US healthcare system approximately US\$1.4 billion annually. According to the Cancer Council Australia of all cancers NMSC is the biggest burden on the healthcare system accounting for \$232 million per year in treatment costs. Peplin is developing PEP005 Topical to address the highly attractive and significant global market opportunity for non-surgical approaches to the treatment of AK and NMSC.

Pipeline

Peplin's earlier stage pipeline is targeted at leukemia (a blood borne cancer) using its lead compound PEP005 in an intravenous formulation (PEP005 IV) and bladder cancer using an intra-cavitary or intravesical formulation (PEP005 IC). PEP005 has demonstrated selective and potent anti-leukemia activity in pre-clinical disease models. PEP005 induces apoptosis in leukemia cells via the activation of PKC delta. Its research portfolio of EPUFA compounds opens additional potential opportunities particularly in cancer and pain.

To help reduce the cost of paper, printing and postage, you can receive an e-mail notifying you of the release of company announcements, reports and other information. The e-mail will contain a convenient link to the information on Peplin's website.

To register for this service shareholders can simply visit the Computershare website at www.computershare.com and:

- click on **Investors**,
- click on **Email address update**,
- enter **PEP** in the field,
- enter your holder identification number (**HIN**) or Security Reference Number (**SRN**), name and postcode, and
- click **Submit** and follow the prompts.

An e-mail will be sent to you for confirmation. Simply click on **reply** and then **send**.

If you have registered at www.peplin.com to receive our PEPupdates, you will continue to receive these.

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