

Media release

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Successful private portfolio positions reduce negative impact of difficult equity market climate in 2007/2008 financial year

Value creation by private portfolio positions was diminished by the subprime crisis during the 2007/2008 financial year. Despite the clear profit contribution generated by private portfolio companies, HBM BioVentures Ltd's net asset value (NAV) declined by 18.6% over the reporting period. This compares with a 17.8 percent fall in the Nasdaq Biotech Index (NBI) and a 26.8 percent drop in the MSCI World Pharma Index (in CHF terms).

Adequate liquidity position guarantees continued financing of portfolio

Considerable liquidity was allocated to new and existing portfolio companies during 2007. As at 31 March 2008, HBM BioVentures held 60 percent of its assets in direct and indirect investments in private companies. Public holdings accounted for 27 percent of the portfolio, with the majority of these companies (16 percent) originating from the private portfolio. Cash and cash equivalents, as well as financial instruments available for sale at any time to hedge half of the company's USD exposure, together made up 12 percent. This adequate liquidity position guarantees continued participation in financings for HBM BioVentures' current portfolio companies.

Although private portfolio companies made a clear contribution to profit, HBM BioVentures' net asset value (NAV) declined by 18.6 percent in the course of the 12-month reporting period. The Nasdaq Biotech Index (NBI) fell by 17.8 percent and the MSCI World Pharma Index dropped 26.8 percent (in CHF terms) within the same time frame.

Mature private portfolio companies

More than half of HBM BioVentures' assets are invested in private portfolio companies. Accounting and reporting requirements require that many of these private portfolio companies are carried in the HBM BioVentures books at their acquisition cost, and are thus valued at a low level. Three out of the four largest private portfolio companies (PharmaSwiss, Cathay and Brahms) are profitable and carry no clinical development risks of any note. "Realising the added value that is embedded in our portfolio will have priority for the next two years", says Andreas Wicki, HBM BioVentures CEO.

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Significant portfolio positions in private companies helped to mitigate unfavourable factors in the difficult equity market climate that characterised the 2007/2008 financial year. Sales (Adnexus, Agensys) enabled HBM BioVentures to realise added value that had not previously been reflected in the balance sheet, and some follow-on financing rounds resulted in upward revaluations. A small number of previously modestly valued holdings in private companies was impacting positively with a contribution of CHF 72.2 million (before foreign exchange losses) to the company's performance during the year just ended.

In June 2007, HBM BioVentures invested EUR 54.6 million in the profitable PharmaSwiss, resulting in its largest portfolio holding. Based in Switzerland, PharmaSwiss is the leading provider of registration, sales and marketing services in central and Eastern Europe. The capital increase conducted in May 2008 with the Polish investment fund Enterprise Investor added to the foundation for continued expansion in Eastern Europe. Andreas Wicki emphasises that "PharmaSwiss is one of several illustrations of the maturity of our portfolio companies, and an indicator that successful sales or upward revaluations can be expected in the near future".

Promising clinical study results expected from public portfolio companies

The portfolio of public companies represented 54 percent of invested assets at the end of March 2007. During the second calendar quarter of 2007, selected holdings were either cut back strongly (these included Basilea, Cytos, PDL BioPharma and Infinity) or sold off completely (XenoPort) in a comparatively high price environment. As a result, the allocation of investments in public companies began the third calendar quarter markedly smaller than before.

The positive contribution made by the private investment portfolio contrasted sharply with massive erosion in the share prices of public holdings in the wake of the crisis on the financial markets. In some cases, these price collapses could be explained by delays in the development of new compounds (Basilea, SkyePharma). The main reason, however, was that a generally more risk-averse investing community became significantly more cautious about prospects for success (Cytos, Newron). At the aggregate level, the drop in valuations (excluding foreign exchange losses) on public holdings during the period under review accounted for CHF 190.8 million of the total CHF 224.1 million reduction in net asset value. Andreas Wicki: "We expect a number of our public portfolio companies to deliver convincing clinical study results over the coming year. They should therefore be able to make good the larger part of the price losses sustained last year."

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The Swiss franc gained ground against almost all other currencies during the 2007/2008 financial year. Since the larger part of the portfolio remained invested in currencies such as the US dollar, Sterling, euros and Swedish kronor during the reporting period, foreign currency losses (before the USD hedge) amounted to CHF 140.1 million. USD foreign exchange risks were hedged for most of the period in an arrangement that generated income of CHF 72.8 million. HBM BioVentures does not, for the time-being, hedge any of the risks on its foreign currency holdings.

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Brief profile of HBM BioVentures Ltd

HBM BioVentures invests globally in the human medicine / biotechnology and medical technology sectors. As a venture capital company it manages a mature, widely diversified portfolio of private and emerging small-cap public companies. Investors value HBM BioVentures as an integral part of their healthcare portfolio, giving them access to this newly created investment segment with its high value creation potential. HBM BioVentures is an active, long-term investor in research and development which finances, accompanies and supports portfolio companies as a key partner. With net assets of approximately CHF 1 billion, HBM BioVentures is one of the most liquid investments in this sector. Lean structures ensure a competitive cost structure, while wide-ranging expertise, operating industrial experience, high professional standards and transparency distinguish the company. HBM BioVentures Ltd has a broad shareholder base and is listed on the SWX Swiss Exchange (Ticker: HBMN).

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