



Challenges of the future

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Forces shaping our future

New rules of the game are emerging:

- **Global economy**
 - Multinational companies are geographically free - they can be located anywhere on earth
 - Anything can be made and sold anywhere in the world
- **New demography**
 - Population is growing, moving and getting older
 - People move from poor countries to rich countries
 - New class of relatively affluent elderly citizens dependent upon the welfare system
- **New distribution of power:** no dominant world superpower able to design and enforce the rules of the game
- **Growing disparity** between rich and poor

Tensions and pressures are slowly growing and are approaching the state of “punctuated equilibrium” when a small impulse can lead to unexpected consequences

(Lester C. Thurow)

Changes in the pharmaceutical industry

- Shift from emergency treatment to long term maintenance therapy
- R&D is getting more expensive but less productive
- The era of „blockbusters“ seems to be over
- Price erosion in the west is hampering R&D but does not guarantee access to eastern markets
- It makes less sense to develop „me too s“ to well established products
- Increasing complexity of regulation does not guarantee better safety and efficacy
- Cost cutting measures by governments are often irrational
- Move to commodity market - price becomes the decisive feature
- Increasing occurrence of “no name” pharmaceuticals

Specific features of the pharmaceutical industry

- One of the few industries driven by supplier rather than consumer
- “Original products” are sometimes rewarded for brand rather than for added value (only about 20% of new molecules present real innovation)
- Sustainability of health care systems depends upon affordable medicines made by generic companies

Problems of pharmaceutical industry

Reputation of the industry is rather low

Reasons:

- **Hasty introductions** of new products without adequate safety (rofecoxib, cerivastatin, etc...)
- **Excessive pricing** of certain innovative products
- **Excessive marketing** of medicinal products is diverting resources from more useful activities such as R&D
- **Insensitive behavior** of multinationals on the third world markets

Opportunity for generic companies to bring changes and better practices

Problems due to north-south disparity

- Market forces are stronger than good intentions:
- Some generic manufacturers in Asia producing cheap products prefer to sell in rich countries rather than in domestic markets
- As a result even cheap drugs are often not available to poor countries
- However: it makes no sense to condemn such practices using only moral arguments: economical incentives should be used
- One of the biggest problems waiting for a solution: how to provide affordable drugs for the third world

**Is it possible to maintain different pricing in different countries
in global economy?**

Current status of pharmaceutical industry in Europe

- Population is getting older
- Older people need long term pharmacotherapy
- Demands on quality of life are growing



However:

- growing tension between resources and expectations
- Only about 10% of population take prescription medicines
- Pressure of authorities to control cost of medicines
- Fast price erosion and decreasing margins
- Growing competition from the East



Which tendency will prevail?

What is expected from our industry

- Supply of high quality medicines for primary care
- Affordable medicines for the mass market
- Price stability
- Creation of competition / stimulation of innovation

What is not expected from our industry

- Products without added value
- Products without significant cost/benefit advantage
- Wasteful and bombastic marketing

Traditional classification of medicines

“originals”

- Full dossier
- IP protection
- expensive
- Aimed at specialists

“generics“

- Abridged dossier
- IP protection
- affordable
- Aimed at general practitioners

What is the real difference between “generics” and “originals”

- Same quality, efficacy, safety
- No difference from the point of view of patients and physicians
- Full interchangeability with the reference medicines

**The most significant added value of “generic” medicines:
wide coverage of the primary care**

Why the use of the term “generic” should be limited

The word „generic“ creates impression of something slightly inferior

It puts us automatically into defensive position

We must endlessly explain there is no difference in quality, safety and efficacy

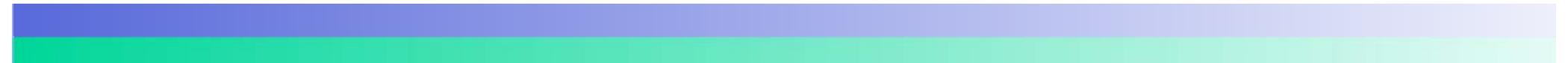
Differentiation between “originals” and “generics” is not used in any other industry

**“generic medicines” should be re-branded
as “affordable medicines”**

Future outlook

- Demand for affordable and high quality medicines will continue to grow
- Only sufficiently fit, big, flexible and effective companies with wider geographic spread will survive
- The future of the pharmaceutical industry looks promising

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How is Zentiva prepared to meet the future challenges

- Effective operations
- Strict financial management
- Geographical expansion
- Profitable growth
- Strategic partnership with the leading multinational company

**We are continually faced by great opportunities
disguised as insoluble problems**

Lee Iacocca

Threats

Speculative and irrational behavior of global financial markets

Political instability and sudden changes in the health care policy

Unbalanced cost cutting measures by state authorities

Excessive regulation

Intellectual property misuse

Classification of “generics” as a second rate medicines by the state authorities and subsequent price implications