

Chairman's Report—Thomas O'Brien

It is my pleasure to welcome you all to Genepharma's first annual general meeting as a listed company.

I will provide an outline of our progress including the early key milestones since Genepharma's listing on the Australian Stock Exchange in June this year.

In August, Genepharma commenced the registration of five drugs with the Therapeutic Goods Administration, or more commonly referred to as the TGA. These five generic anti-cancer drugs have only one generic competitor in Australia and collectively cost \$30-\$40million annually to the PBS. I am pleased to report that the registration in the very early stages has progressed very smoothly.

Genepharma has a target of 40-50 product submissions in its first three years and these were the first five drug targets for the first three months. All five drugs being registered by Genepharma are currently off-patent.

More recently Genepharma formally commenced registration for Simvastatin with the TGA. The cholesterol-reducing drug Simvastatin is the first of Australia's blockbusters to come off patent. It is the second largest PBS drug and accounted for more than 5.5 million prescriptions in Australia in 2004 at a cost of over \$370 million.

The originator drug comes off patent in July 2005 and we expect to market and distribute Simvastatin next financial year.

While we are in the process of registering an initial marketable range of products we are simultaneously seeking to develop a strong marketing and sales organisation to market these products through direct and indirect channels to pharmacies and hospitals.

In this respect, we have signed distribution agreements with Australia's two leading hospital pharmacy distributors, Clifford Hallam and Cottman Australia. While Clifford Hallam is the largest supplier of hospital pharmacy products in New South Wales, Victoria, Queensland and Tasmania, Cottman Australia has dominant hospital supply market positions in Western Australia, South Australia and the Northern Territory.

The Australian hospital pharmacy market is estimated to be worth A\$1.1billion annually and will be a critical element in Genepharma's success. These distribution agreements are a part of our strategy to creatively and aggressively target pharmacies and hospitals. Retail pharmacies, we expect, will account for about 85 percent of Genepharma's sales and hospitals for about 15 percent.

Genepharma's marketing strategy includes a segmented sales approach, loyalty schemes and key account activities to drive sales. We are also aiming to secure pharmacy distribution agreements as well as undertake direct

distribution strategies. Use of distributors will allow small orders and more frequent deliveries to regional customers.

No product range can succeed without great marketing strategies. Genepharm has sought out one of the best operators in pharmaceutical sales in Australia with our appointment of Keith Jeffs in the role of Sales & Marketing Director. Keith has over 25 years of experience in sales and marketing mainly with Glaxo Wellcome and Sigma Healthcare.

To ensure our executives are focussed and motivated and to enable us to attract and recruit the best people in this industry, we are establishing a Senior Management Share Option Plan. It will be necessary to hold an Extraordinary General Meeting to approve the allocation of options to cover all executives including the two key Executive Directors. Notices of this meeting will be dispatched in the next few weeks.

While our core operations are focused on Australia, I must emphasise that our operations will not be confined to Australia. Genepharm will also operate in NZ which will be aided by the merger of the Australian TGA and New Zealand's Medsafe and provide reciprocal drug approvals from July 2005. This will expand Genepharm's market immediately before our first product distributions. Genepharm is also considering product distribution opportunities in South East Asia.

The market for generic pharmaceuticals is growing at a remarkable compound rate of 22 percent per annum and expected to grow from around \$900 million to over \$2 billion by 2008 as 8 of Australia's top 20 PBS blockbuster drugs come off patent. Genepharm is sitting in the front seat in Australasia's expanding generic pharmaceutical market. Since listing in June Genepharm has achieved all its objectives to date, and we look forward to a dynamic year ahead.

Thank you.

CEO's Report–Dennis Bastas

Dear shareholders

I would like to take this opportunity to reiterate how satisfied we are with Genepharm's early milestone achievements. It has been a good start and we do believe we are building the best competitive position in the market.

Genepharm is targeting 40-50 generic drug submissions in Australia within three years. As you've heard from our chairman, six have been submitted so far and we are on target to have a total of eight submitted before the year end. A significant feat by any measure in the pharmaceutical industry and testament to the value of Genepharm's European pedigree which is more directly aligned with Australian regulatory standards than US or Asian standards.

Genepharm is the only Australian listed company dedicated to the sales and marketing of generic pharmaceuticals. Our target markets are both retail and hospital pharmacies.

Our relationship with Genepharm SA provides us with three key offerings that any other independently managed company would take years to develop:

Access to a leading R&D centre for the development of not only existing but new patent expiring drugs.

Manufacturing know-how and capacity to ensure products are accessed at the lowest cost of goods and with a reliable supply line.

Access to the global market where we can source other niche products and supply arrangements to leverage even more value from our own distribution channel.

Genepharm is also establishing product distribution arrangements for retail and hospitals' pharmacies as well as a segmented sales strategy, loyalty programs and key account activities to more effectively build pharmacy relationships.

As you have all no doubt been seeing in the press for the last six months, the generic pharmaceuticals industry has a robust future in Australia. There are three key drivers:

Firstly, the patents of many of the top originator PBS products will expire in the next 1-3 years. According to figures from the PBS, the patents on products with pharmacy sales of over A\$450 million will expire in 2005 alone. 2006 to 2008 will see a further \$1billion worth of value hit the generic market.

Secondly there is increased government policy support for generic pharmaceuticals as every 1 percent generic substitution with PBS drugs will

save \$80 million per annum for the Commonwealth. We also expect consumer awareness of generics will improve sales.

The third and equally important factor is the ageing population. Older people use far more prescription and over-the-counter medicines including originator brands and generics.

So what are the key operational tasks for Genepharm in the coming year?

In summary they are:

- to manage the continuing process of TGA registrations,
- secure further distribution collaborations and
- manage the delivery of an effective sales and marketing strategy for our entry into the market in the next financial year.

Genepharm is also committed to developing new international opportunities to explore Asian markets for our range of generic pharmaceuticals.

Before I conclude may I express my thanks to my managers and staff and all those parties who have actively supported the company in its birth as an Australian publicly listed organisation. May I also say that our experience in working with our partners at Genepharm SA has been one of professionalism and enthusiasm.

The mission of Genepharm is to build a valuable business that will be a leader in Australasia's expanding generic pharmaceutical market through the sale of a premium range of generic pharmaceuticals using innovative marketing strategies that will create value for customers and shareholders. We look forward to your continuing support in the company and its future.

Thank you.