# RUSSIAN PHARMACEUTICAL MARKET

DSM GROUP

## 1st HALF of 2007

**DEAR COLLEAGUES!**

Well, we can say we have new state of things on the market again. In 2005-2006 the Russian pharmaceutical business mostly developed due to DLO; however at the beginning of 2007 the situation has changed. At the end of 2006 the burst of budget expenses for drugs was replaced by strict economy, so in 2007 the market has not grew due to state money. Commercial segment has been dominating again; it increased by 18% in the 1$^{st}$ half of 2007.

Besides, we have second however less important fact telling us that new era started. A long-standing leader of the Russian market, for many years entering TOP lists, the unique medication "Crataegus" not only left TOP-5 but even hardly stayed in TOP-20. The leader of the rating is medication indeed. At that produced by a Russian manufacturer. And recently launched for the market. We really see that promotion of drugs can gain profit on the Russian market as well.

Good luck with your business!

Alexander Kuzin

General Director of DSM Group

# SUMMARY

In the first half of 2007, commercial drug market volume (in retail prices) amounted to 3.4 billion dollars, i.e. compared to the same period of the previous year, the market grew by 18%. In ruble terms the growth is slightly lower: +11% to the amount of 89.6 billion rubles.

According to Laspeyres index, prices on Russian commercial market in the first half of 2007 increased in dollar terms by 3.9%, in ruble terms by 0.8%. In the first half of 2007 inflation on consumer market amounted to 5.7%, and underlying inflation amounted to 3% (according to Ministry of Economic Development and Trade of the Russian Federation).

The main feature of this year is decrease of influence on the market growth of the State Reimbursement Program (DLO) segment. That level of influence, which the DLO Program had in 2005-2006, is no longer in place. Decrease in this segment capacity was the exact cause of decrease in pharmaceutical market growth rate.

As estimated by DSM Group, in 2007, pharmaceutical market growth (drugs + parapharmaceutical products) most likely will be 16% (in dollar terms); in ruble terms (due to change in the exchange rate), the pharmaceutical market growth presumably will amount to 10% by 2006.

The volume of the state drug market decreased by 1% and in the first half of the current year amounted to 1.7 billion dollars. DLO Program significantly influenced this kind of situation. After last year's budget overrun and debt to suppliers of more than 20 billion rubles, the government tries to deal with money appropriated for the program more savingly. In the current year 18 billion rubles are additionally allocated to cover debt to suppliers in 2006. But even this sum is insufficient to repay debts in full.

In the first half of 2007 drugs supplied pursuant to the DLO Program amounted to 21.7 billion rubles. The great majority of drugs prescribed to beneficiaries in the first half of 2007 under the DLO Program (72.4%) costs more than 500 rubles.

In the first half of 2007 volume of the hospitals segment amounted to 904 mln dollars (23.8 billion rubles). Compared to the year-ago period, the HOSPITALS market increased by 24% in dollar terms, and by 19% in ruble terms.

Drug import volume in Russia in the first half of 2007 amounted to 2.7 billion dollars (in custom prices), which is 10% lower than that in the same period of the previous year.

CV "Protek" and SIA International remain the largest importers in the group "Distributor companies", although both companies suffer decrease in volume of imported supplies.

In the first half of 2007 beauty pharmacy market volume amounted to 212 mln dollars, which is 84% higher than that in the same period of 2006. If previously we stated that the second place in sales volume after commercial drug market belongs to the commercial NS market, then in the first half of 2007 this situation changed: beauty pharmacy market volume is more than that of commercial NS market.

In the first half of 2007 commercial NS market volume amounted to 163 mln dollars, which is 8% higher than that in the same period of the previous year. In ruble terms NS market volume increased by only 2% and amounted to 4.2 billion rubles. Such growth rate is rather low for NS market.

Sanofi-Aventis remains the leader of TOP-10 manufacturers on commercial drug market. Pharmstandard moved from the fifth to the second place by increasing its sales volumes by 67% compared to that in the first half of 2006. Lek DD with growth rate of 35% moved 4 positions upwards from the tenth place.

Novartis keeps the leading position on the DLO market among manufacturers, its product sales volumes increased by 41%, Novo Nordisk also demonstrates high growth rate (+38% compared to that in the first half of 2006). Teva Pharmaceutical Industries LTD with growth rate of 29% moved upwards from the twelfth to the seventh place.

The leader among manufacturers by sales volumes on the hospital market is Sanofi-Aventis; it holds 6.3% of the whole hospitals segment.

Vichy Laboratories with share of 20% became the leader of TOP-10 beauty products manufacturers on the Russian pharmacy market.

Evalar and Diod retain their leading positions in the TOP-20 of NS manufacturers.

As for drugs the leader of commercial market is domestic drug Arbidol, on the DLO market the leader is drug belonging to the ATC group [L] "Antineoplastic and immunomodulating agents" Glivec, in the hospitals segment the leader is Sodium chloride.

In the first half of this year the landmark event took place on the commercial drug market: longstanding unchallenged participant of TOP-5 ranking by pharmacy sales, Crataegus tincture, receded from its position. Sales volume reduced by 40% (to 15.7 mln dollars) and from the forth place it dropped to the twentieth.

Capilar (Diod) became sales leader in the TOP-20 NS trade names. In spite of sales decrease by 19 % this drug is still ahead of its nearest competitor, which is Bilberry-Forte (Evalar) by more than twice by sales volumes. Highest increase in the ranking belongs to Gerimax Energy (2.8 mln dollars, +98% compared to that in the first half of 2006).

Cooperative labor is useful thing. Especially if drug manufacturers, distributors, pharmacists, doctors work for well-being and health of Russian people, and government helps them by means of the State Reimbursement Program (DLO).

In 2007 issue of budget savings to DLO Program stands out, further we will see how big is influence of this program not only on development of state ready-to-use drug market, but on the whole Russian pharmaceutical market in general.

Development of Russian pharmaceutical market depends on processes happening in its segments. Two basic segments of the Russian pharmaceutical market can be highlighted: commercial segment and state segment. Commercial segment of the pharmaceutical market includes pharmacy sales of drugs and parapharmaceutical products exclusive of sales under the DLO Program. Pharmaceutical market includes non-medical goods being sold in pharmacies (nutritional supplements, beauty products etc.). State-controlled segment of the pharmaceutical market includes drugs pharmacy sales under the DLO Program and drugs sales through hospitals.

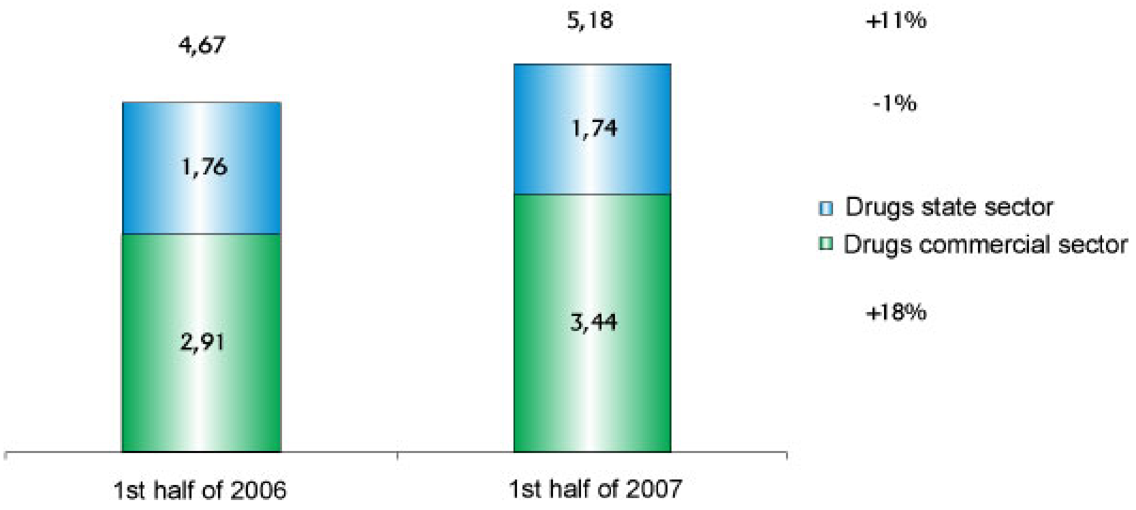
# 1. RUSSIAN PHARMACEUTICAL MARKET CAPACITY

On the whole commercial and state drug markets in the first half of 2007 compared to the same period of the previous year grew only by 11%. This growth rate is lower than in the previous year. It can be said to compare that the same indicator of the first half of 2006 in relation to the first six months of 2005 increased by 34%.

*Diagram* 1 shows volumes of state and commercial drug segments in value terms.

*Diagram 1*

**Drugs pharmaceutical market volume, in consumer prices, $ billion**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

The state segment compared to the previous year practically did not change because of events taking place in the DLO Program.

In 2005 when the DLO Program started budgets funds were sufficient for its implementation. In 2006 the situation changed. Shipments made by distributors and beneficiary prescription drugs dispensing in the first half of 2006 showed that amount of funds will be insufficient. All these caused necessity to conduct set of measures for expenses optimization, which took place throughout 2006. Main efforts were directed at optimization of listing of drugs, price reduction for drugs, quality of application writing and definition of needs, training in supplies management algorithm, increase of control of drug prescription. For all these parameters certain success was achieved but state indebtedness accrued. The number of issued prescriptions and, consequently, monies spent for DLO in 2006 exceeded the budget assigned for program implementation. Currently the State has significant debt to distributors of more than 20 billion rubles. As a result of this debt the commercial players of the DLO Program decrease their participation in it in 2007.

In the current year the State tries to change the situation, for that purposes additional financing sources were determined; the programs were developed for its cost reduction and reforming in 2007-2008.

In the first half of 2007, commercial drug market volume (in retail prices) amounted to 3.4 billion dollars, i.e. compared to the same period of the previous year the market grew by 18%. When comparing market volume for drugs in the first half of 2006 and 2007 in ruble terms the growth is slightly lower, + 11%, which in value terms amounts to 89.6 billion rubles.

The overall ranking of manufacturers with regard to sales on the commercial and state drug segments shows that main "players" are foreign companies. Only one representative of Russia, Pharmstandard, moved upwards in the ranking and took eighth place in the first half of 2007 *(see Table 1)*.

*Table 1*

**TOP-10 drug manufacturers by sales volume on the Russian pharmaceutical market in the 1st halves of 2006-2007**

| Rating | | Manufacturers | Share by sales value, $ % | | Share by sales volume, units, % | |
|---|---|---|---|---|---|---|
| 1st half 2006 | 1st half 2007 | | 1st half 2006 | 1st half 2007 | 1st half 2006 | 1st half 2007 |
| 1 | 1 | Sanofi-Aventis | 5,7% | 4,6% | 1,6% | 1,4% |
| 2 | 2 | Novartis | 3,5% | 4,1% | 0,7% | 0,7% |
| 3 | 3 | F.Hoffmann-La Roche LTD | 3,4% | 3,1% | 0,2% | 0,2% |
| 5 | 4 | Janssen Pharmaceutica N.V. | 3,0% | 3,0% | 0,2% | 0,2% |
| 4 | 5 | Berlin-Chemie /A.Menarini/ | 3,2% | 2,9% | 1,7% | 1,7% |
| - | 6 | Bayer Schering Pharma AG | - | 2,7% | - | 0,3% |
| 7 | 7 | Gedeon Richter | 2,7% | 2,7% | 1,3% | 1,2% |
| 13 | 8 | Pharmstandard | 1,9% | 2,7% | 7,0% | 6,6% |
| 10 | 9 | Nycomed | 2,3% | 2,5% | 0,7% | 0,9% |
| 12 | 10 | Lek DD | 2,1% | 2,3% | 1,1% | 1,1% |
| | | **Total share of TOP-10** | | **30,54%** | | **14,26%** |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

TOP-3 of drug manufacturers on the pharmaceutical market in the first half of 2007 is the same as was in the first half of 2006. It should be only mentioned that while the share of Sanofi-Aventis and F.Hoffmann-La Roshe LTD reduced, Novartis increased its share.

Sanofi-Aventis positions are very strong on the commercial drug market and on the hospitals market; sales in these particular segments allow the manufacturer to retain leading position.

F.Hoffmann-La Roche LTD, Novartis and Janssen Pharmaceutica N.V. are more noticeable on the DLO market, although Novartis is constant member of TOP-10 drug manufacturers in the commercial segment as well.

Pharmstandard has most significantly increased its share in the pharmaceutical market; it is related mainly to this company success on commercial pharmacy market with Arbidol, Pentalgin, and Complivit.

Bayer Schering Pharma AG formed in the end of the last year by merger of two companies took sixth place in the ranking.

Pfizer, Servier, AstraZeneca left TOP-10 in the first half of 2007.

*Table 2* shows TOP-10 drugs by sales volume on the Russian pharmaceutical market in the first half of 2006-2007.

*Table 2*

**TOP-10 drug brands by sales volume on the Russian pharmaceutical market in the 1st halves of 2006-2007**

| Rating | | Brands | Share by sales value, $, % | | Share by sales volume, units, % | |
|---|---|---|---|---|---|---|
| 1st half 2006 | 1st half 2007 | | 1st half 2006 | 1st half 2007 | 1st half 2006 | 1st half 2007 |
| 2 | 1 | Glivec | 1,0% | 1,3% | 0,0% | 0,0% |
| 15 | 2 | Betaferon | 0,5% | 0,9% | 0,0% | 0,0% |
| 11 | 3 | Sodium chloride | 0,6% | 0,9% | 1,5% | 2,4% |
| 22 | 4 | Eprex | 0,4% | 0,8% | 0,0% | 0,0% |
| 14 | 5 | Velcade | 0,5% | 0,8% | 0,0% | 0,0% |
| 7 | 6 | Actovegin | 0,7% | 0,7% | 0,1% | 0,1% |
| 79 | 7 | Copaxone-Teva | 0,2% | 0,6% | 0,0% | 0,0% |
| 12 | 8 | Arbidol | 0,6% | 0,6% | 0,3% | 0,3% |
| 4 | 9 | Enap | 0,8% | 0,6% | 0,5% | 0,4% |
| 61 | 10 | Glucose | 0,3% | 0,6% | 0,8% | 1,3% |
| | | **Total share of TOP-10** | | **7,7%** | | **4,5%** |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Glivec and Betaferon, which are in the top of the ranking, belong to antineoplastic and immunomodulating agents these are high-priced drugs purchased mainly within the DLO Program. Copaxone-Teva, which had astounding rise in ranking from the 79th place to the seventh, also belongs to such drugs.

Eprex affecting blood forming organs is actively used in the hospital sector under the DLO program.

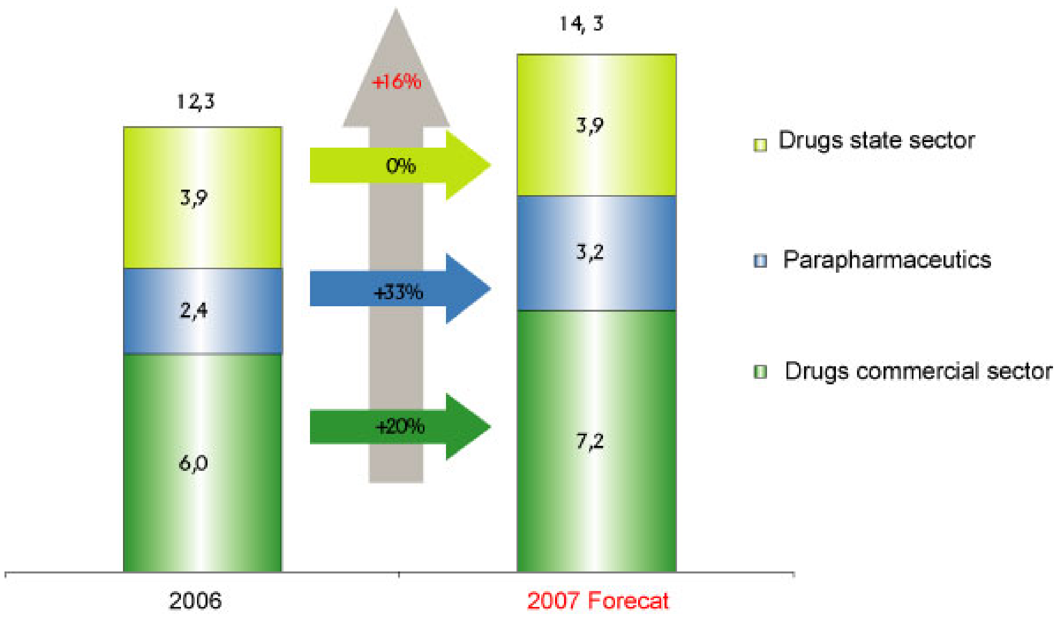
But among drugs, which entered the TOP-10 by sales on the Russian pharmaceutical market, not only drugs, which are used mostly in the DLO and hospitals sectors, stand out but also drugs being purchased mainly on the commercial market, these are Arbidol and Enap.

# 2. FORECAST OF RUSSIAN PHARMA MARKET DEVELOPMENT IN 2007

According to the data of the first half of 2007 and the DSM forecast the pharmaceutical market volume (in retail prices) in 2007 compared to 2006 will be as follows:

*Diagram 2*

**Pharmaceutical market volume in Russia in 2006-2007 (forecast), in consumer prices, $ billion**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

In 2005 and 2006 Russian pharmaceutical market at cost of the DLO program demonstrated impressive growth rate. In 2007, growth of the whole pharmaceutical market, most likely, will be 16% (in dollar terms), in ruble terms due to change in the exchange rate the pharmaceutical market growth presumably will amount to 10%.

The biggest share in the Russian pharmaceutical market volume belongs to drug sector (about 50%). Its growth in 2007 compared to 2006 according to the DSM Group estimates in dollar terms will be 20%. Market growth in ruble terms presumably will amount to 13%.

Maximum market volume growth compared to that of the previous year will be for parapharmaceutical sector. Starting from 2006, this market segment actively develops. In 2006 compared to 2005 its increase in dollar terms was 40%, in 2007 its increase presumably will be about 33% in dollar terms, 26% in ruble terms. Increase in parapharmaceutical sales volume is related to rising if living standards, wish to by goods other than goods of prime necessity but health&beauty products as well. At present the parapharmaceutical products are the catalyst for Russian pharmaceutical market.

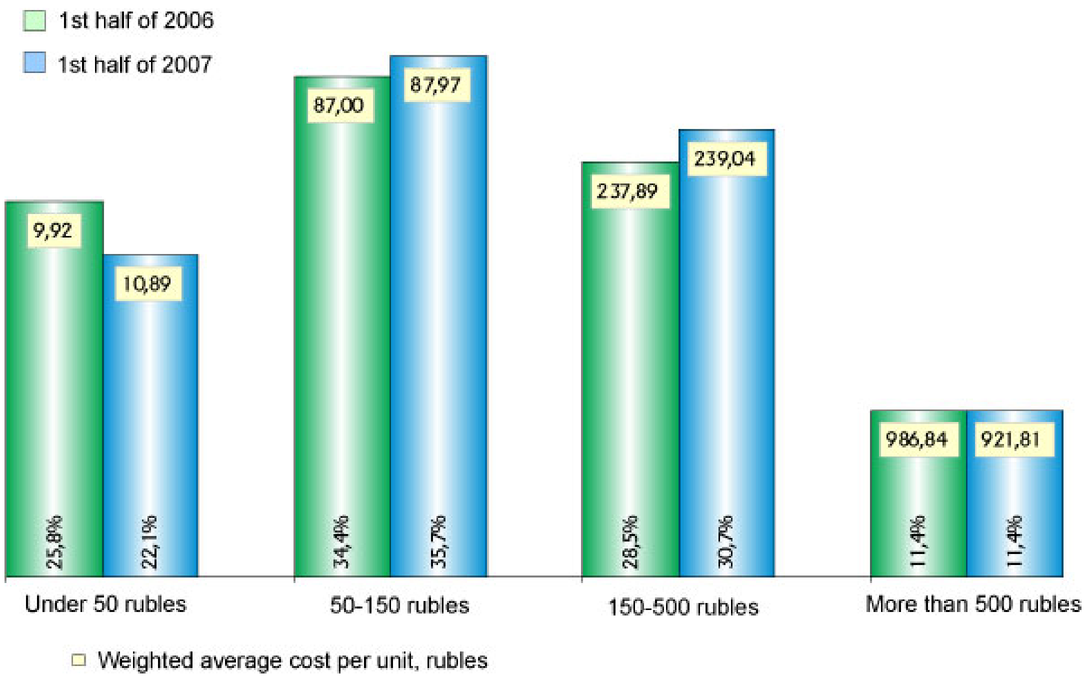
For a start we will review structure of Russian commercial drug market.

### 3.1. Drugs consumption structure for different price categories

*Diagram 3* shows dynamics of drugs consumption (in value terms, in purchase prices) for different price categories.

*Diagram 3*

**Sales volume of drugs from various price categories on the Russian commercial market in the 1st halves of 2006-2007**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Russian people start to prefer more consumption of more expensive drugs. Share of drugs consumption in the price range from 50 to 500 rubles increased by 1-2%. Cheap drugs (less than 50 rubles) consumption is continuously decreasing. Consumption of expensive drugs (more than 500 rubles) is at the same level.

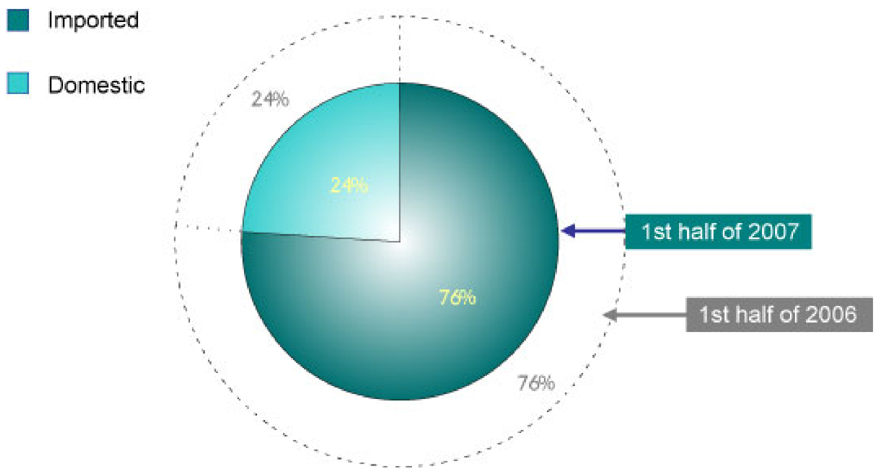
During general increase of the weighted average price per unit in drug market in the most expensive price segment the average cost still decreases (-4%). This fact doesn’t mean price reduction for more expensive drugs. It is explained by the fact that the drugs, which through price increase entered more "prestigious" price segment decrease by their relatively low price the average cost of segment unit.

## 3.2. Proportion of imported and domestic drugs

The proportion of domestic and imported drugs by pharmacy sales in Russia is shown in *Diagram 4*.

*Diagram 4*

**Imported and domestic drugs on the Russian commercial market in the 1st halves of 2006-2007, %**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Proportion of domestic and imported drugs on Russian commercial pharmacy market in the first half of 2007 compared to the same period of the previous year has not changed: in value terms 24% is covered by domestic drugs and 76% by imported drugs.

On the domestic drug market imported drugs prevail by sales value, and domestic drugs prevail by real sales value. Thus, here might be an impression that domestic drugs prevail by number of trade names. This is wrong. They are just cheaper that the imported ones.

The proportion of trade names of domestic and imported drugs by pharmacy sales in Russia is shown in *Diagram 5*.

*Diagram 5*

**Ratio of imported and domestic trade names on the commercial pharmacy market in Russia in the 1st halves of 2005-2007, %**


**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

The proportion of trade names for domestic and imported drugs on Russian commercial drug market remains approximately the same. In the first half of 2005 and 2006 trade names of domestic drugs amounted to 43% of total drug market volume, in the first half of 2007 the share of domestic trade names is 44%.

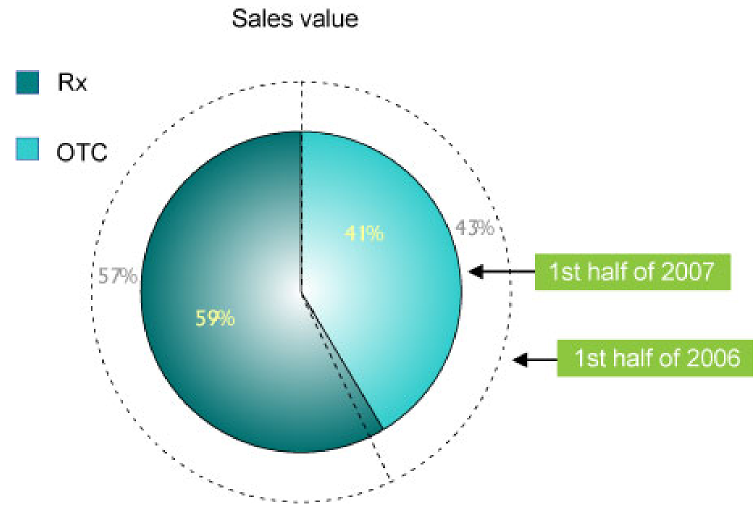
## 3.3. Proportion of Rx and OTC drugs on commercial market

When calculating shares of Rx and OTC, drugs were distributed officially according to the OTC list. The fact that Rx drugs in pharmacies are often sold without prescription is disregarded.

Proportion of Rx and OTC drugs by pharmacy sales on Russian commercial market is shown in *Diagram 6.*

*Diagram 6*

**Rx and OTC drugs on the Russian commercial market in the 1st halves of 2006-2007, %**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Sales volumes of OTC drugs as well as RX drugs are increased. But as we see proportion of these groups of drugs has changed. In the first half of 2007 the share of Rx drugs in value terms increased by 2% and amounts to 59%.

### 3.4. Drug sales structure by ATC groups

It is much easier to find someone or something when you know what you are looking for, i.e. you have all parameters of the "object". In hospitals and other healthcare institutions for this case medical history is kept where diagnoses and doctors' orders are recorded, morbidity rate statistics are collected. Structure of morbidity rate reflects consumption of drugs by ATC groups. It should be noted that structure of drug consumption by ATC in pharmacies and hospital segment is different. Below structure of ATC groups in commercial sector of drug sales is reviewed.

Proportion of 1-st level ATC groups by pharmacy sales in the first half of 2006 - 2007 in Russia is shown in *Table 3.*

*Table 3*

**Sales structure by ATC-groups on the drugs commercial market in Russia in the 1st halves of 2006-2007, %**

| 1st level ATC-groups | Share by sales value, $, % | | | Share by sales volume, units, % | | |
|---|---|---|---|---|---|---|
| | 1st half 2006 | 1st half 2007 | Share change | 1st half 2006 | 1st half 2007 | Share change |
| A: Alimentary tract and metabolism | 18,9% | 18,4% | -0,44% | 20,5% | 19,3% | -1,22% |
| N: Nervous system drugs | 14,1% | 13,4% | -0,68% | 20,2% | 20,6% | 0,42% |
| C: Cardiovascular system drugs | 11,8% | 12,5% | 0,69% | 7,9% | 8,5% | 0,62% |
| R: Respiratory system drugs | 10,6% | 11,4% | 0,77% | 12,5% | 13,4% | 0,91% |
| J: Antibacterials for systemic use | 7,6% | 7,6% | 0,07% | 5,1% | 5,7% | 0,56% |
| G: Genitourinary system drugs and sex hormones | 7,5% | 7,3% | -0,25% | 1,5% | 1,5% | 0,05% |
| M: Musculoskeletal system drugs | 6,3% | 6,7% | 0,35% | 5,6% | 6,0% | 0,43% |
| [~] Without allocation (homeopathic preparations, plant and animal drugs, substances etc.) | 6,0% | 5,2% | -0,74% | 9,4% | 7,6% | -1,80% |
| D: Dermatologicals | 5,5% | 5,4% | -0,09% | 10,6% | 10,4% | -0,20% |
| L: Antineoplastic and immunomodulating agents | 4,5% | 4,5% | 0,05% | 0,8% | 1,0% | 0,19% |
| B: Agents affecting blood and blood forming organs | 3,0% | 3,1% | 0,04% | 2,0% | 2,1% | 0,18% |
| S: Agents affecting sensory organs | 2,0% | 2,3% | 0,27% | 2,0% | 2,1% | 0,04% |
| H: Systemic hormonal preparations (excluding sex hormones) | 1,0% | 0,9% | -0,06% | 0,3% | 0,4% | 0,06% |
| V: Various | 0,7% | 0,7% | 0,01% | 1,0% | 0,8% | -0,22% |
| P: Antiparasitic products, insecticides and repellents | 0,5% | 0,5% | 0,01% | 0,5% | 0,6% | 0,04% |

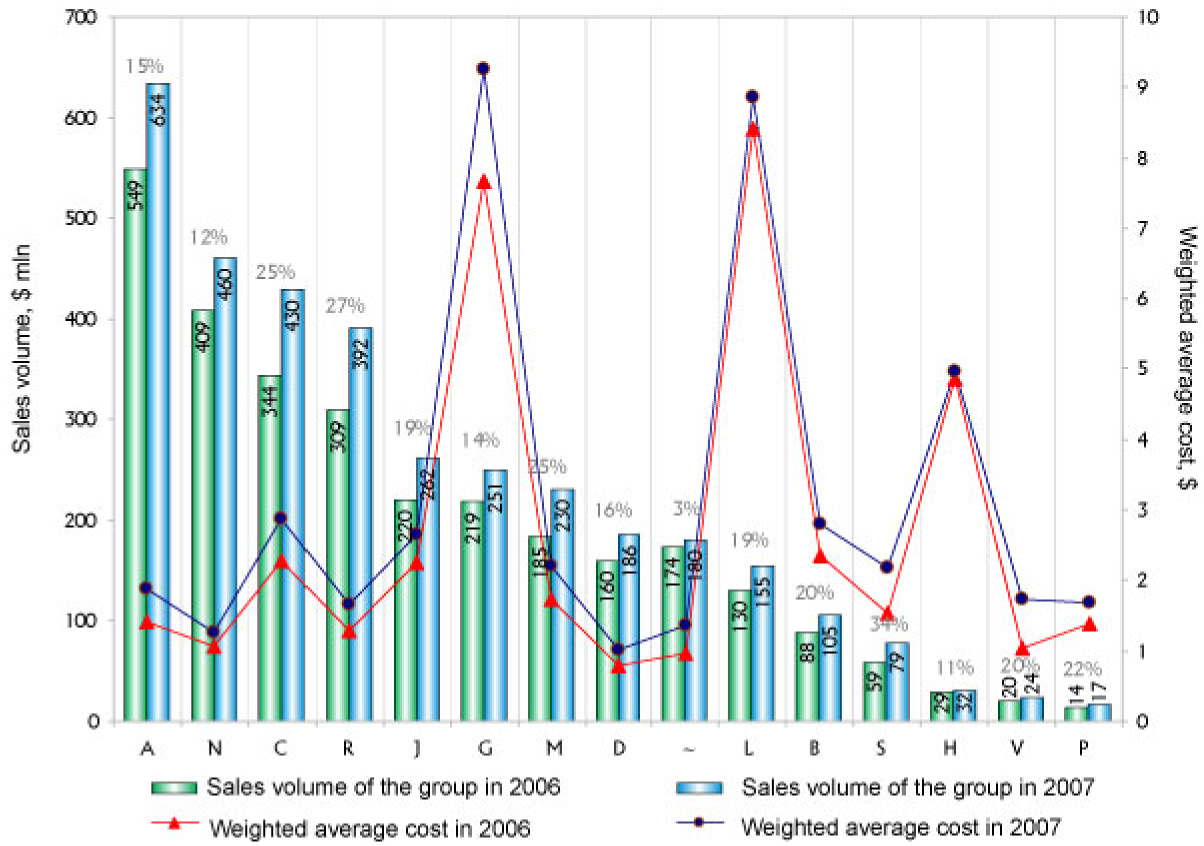
**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

From the first half of 2006 structure of commercial market by ATC groups did not changed in spite of the difference in growth volume for each group and, consequently, change of share in the overall volume of drug commercial market. The most popular are still the drugs belonging to the ATC group [A] "Alimentary tract and metabolism".

Structure of commercial market by ATC groups in the first half of 2007 compared to the first half of 2006 as well as increase in capacity and average unit price (in wholesale prices) is shown in *Diagram 7*.

*Diagram 7*

**Drugs commercial market structure (in wholesale prices) in Russia in the 1st halves of 2006-2007, %**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Russian commercial market of drugs by the end of the first half of the year increased by 18%. Nine out of fifteen ATC groups showed growth over average. The biggest growth is in the following groups:

- [S] "Sensory organs drugs" (+34%),
- [R] "Respiratory system drugs" (+ 27%),
- [C] "Cardiovascular system drugs" (+ 25%),
- [M] "Musculoskeletal system drugs" (+ 25%).

Taken into account that weighted average price per drug unit in Russian commercial market amounts to 1.96 dollar (in wholesale prices), in the above mentioned ATC groups, as we see, includes no most expensive drugs. This indicates that sales growth of these ATC groups takes place not only because of high price but mostly because of drugs popularity and being in demand.

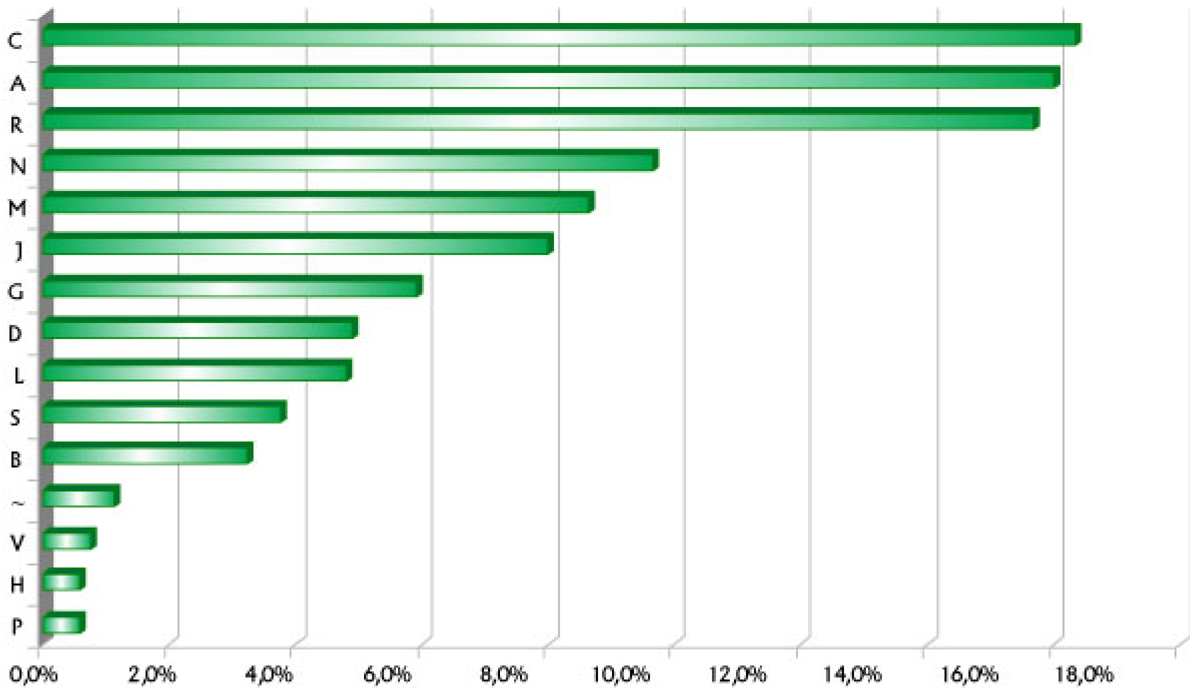
The most expensive drugs belong to the groups [G] "Genitourinary system drugs and sex hormones" and [L] "Antineoplastic and immunomodulating agents". This resulted from specifics of illnesses represented in these groups. The weighted average price per unit of drugs of these ATC groups exceeds 9 dollars (in wholesale prices).

Increase in sales volume of any ATC group compared to the same period of 2006 might be impressive within that ATC group but in the total growth of drug market this sales volume might be insignificant. In order to determine ATC groups having the biggest impact on the overall growth of drug commercial market, we define the amount of growth for each group in value terms and the share of this growth in the overall growth amount.

Shares of ATC groups in drug commercial market are shown in *Diagram 8*.

*Diagram 8*

**ATC-groups shares in commercial drugs market increase in Russia in the 1st halves of 2006-2007, %**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

The biggest impact on the increase in drug market capacity is for drugs of the following groups:

- [C] "Cardiovascular system drugs",
- [A] "Alimentary tract and metabolism",
- [R] "Respiratory system drugs",
- [N] "Nervous system drugs".

These very ATC groups are the engine for drug market growth of the commercial market.

Top sales products of 1st level ATC groups are shown in *Table 4.*

*Table 4*

**Leading brands within 1st level ATC-groups in commercial drugs sales in Russia in the 1st half of 2007**

| 1st level ATC-groups | Leading brand in the ATC-group | Manufacturers | Share in total sales volume of the group, % | Share of the group in drugs market volume, % |
|---|---|---|---|---|
| A: Alimentary tract and metabolism | Essentiale | Sanofi-Aventis | 3,9% | 0,73% |
| N: Nervous system drugs | Teraflu | Novartis | 5,0% | 0,66% |
| C: Cardiovascular system drugs | Enap | KRKA | 5,8% | 0,72% |
| R: Respiratory system drugs | Terpincod | Pharmstandard | 3,5% | 0,40% |
| J: Antibacterials for systemic use | Sumamed | Pliva Hrvatska | 6,1% | 0,47% |
| G: Genitourinary system drugs and sex hormones | Viagra | Pfizer International inc. | 11,3% | 0,83% |
| M: Musculoskeletal system drugs | Nurofen | Boots Pharmaceuticals | 7,6% | 0,51% |
| [~] Without allocation (homeopathic preparations, plant and animal drugs, substances etc.) | Anaferon | Mareria Medica | 9,2% | 0,48% |
| D: Dermatologicals | Lamizil | Novartis | 5,5% | 0,30% |
| L: Antineoplastic and immunomodulating agents | Arbidol | Pharmstandard | 21,0% | 0,95% |
| B: Agents affecting blood and blood forming organs | Actovegin | Nycomed | 28,5% | 0,87% |
| S: Agents affecting sensory organs | Quinax | Alcon-Couvreur | 13,9% | 0,32% |
| H: Systemic hormonal preparations (excluding sex hormones) | Iodomarin | Berlin-Chemie /A.Menarini/ | 27,3% | 0,25% |
| V: Various | Strix | Ferrosan AG | 13,2% | 0,09% |
| P: Antiparasitic products, insecticides and repellents | Spregal | S.C.A.T. | 15,0% | 0,07% |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

This table shows ATC groups and top sales product for each group. In some cases it might seem that presence of a drug in a group has no logic but fact remains the same. For example Teraflu actively used for catarrhal diseases treatment belongs to the ATC group [N] "Nervous system drugs", because Paracetamol is its main ingredient and that is why the drug is included in the ATC group N02BE51 "Paracetamol, combinations excl. psycholeptics".

Nurofen used either for treatment, for instance, of rheumatoid arthritis and neuralgia, or of acute respiratory viral infections, cold and influenza is included in the ATC group M01AE01 "Ibuprofen". The basic ingredients of Arbidol, which is recommended at catarrhal diseases, are immunomodulators (L03AX "Other cytokines and immunomodulators") that is why it is included in group [L] "Antineoplastic and immunomodulating agents". Iodomarin based on iodine, which is not supposed to have any relation to hormones belongs to ATC group [H] "Systemic hormonal preparations, excl. sex hormones", because this very group includes iodine drugs (H03CA).

Not all ATC groups have obvious leader, whose sales volume significantly differs from other group drugs indicators. The exceptions are ATC groups [B] "Agents affecting blood and blood forming organs" – top sales product is Actovegin (28.5%), [H] "Systemic hormonal preparations, excl. sex hormones" – Iodomarin (27.3%), [L] "Antineoplastic and immunomodulating agents" – Arbidol (21%).

## 3.5. Drug sales structure by INN

INN abbreviation means - international nonproprietary names. Also INN means active drug substance. That is why it is important to estimate which INN were in the most demand within reviewed periods, and also to see drugs, which are top sales products for each INN.

Proportion of INN by pharmacy sales in the first half of 2006 - 2007 is shown in *Table 5.*

*Table 5*

**TOP-10 INN in drugs commercial sales volume in Russia in the 1st halves of 2006-2007, %**

| Rating | INN | Share by sales value, % | | INN sales increase, % |
|---|---|---|---|---|
| | | 1st half 2006 | 1st half 2007 | |
| 1 | Polyvitamin+multimineral | 2,3% | 2,0% | 5,2% |
| 2 | Enalapril | 1,2% | 1,1% | 8,3% |
| 3 | Pancreatine | 1,1% | 1,1% | 17,5% |
| 4 | Xylomethazolin | 0,9% | 1,0% | 28,7% |
| 5 | Methylphenylthiomethyl-dimethylaminomethyl-hydroxybromindol carbonic acid ethyl ester | 1,0% | 0,9% | 15,4% |
| 6 | Sildenafil | 0,9% | 0,8% | 5,0% |
| 7 | Fluconazole | 0,8% | 0,8% | 13,7% |
| 8 | Polyvitamin | 0,8% | 0,8% | 11,9% |
| 9 | Ambroxol | 0,6% | 0,8% | 47,1% |
| 10 | Ketoprofen | 0,7% | 0,7% | 30,8% |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

On the whole share for each INN included in TOP-10 in the structure of drug pharmacy sales changed insignificantly. It should be only mentioned that sales of ranking leader "Multivitamins+multiminerals" increased only by 5%, and share in the overall volume reduced by 0.3%, which, however, did not prevented it from retaining the first place in TOP-10. At that significant growth of less popular substances not always allows them to take higher positions. Thus, e.g. Ketoprofen increased its sales almost by one third, but at that moved from 9th to 10th positing in ranking. This situation is stipulated by the fact that even big growth to relatively small product sales volume not always covers insignificant sales growth of drugs, which had high sales volume in the beginning.

If drug INN is important for pharmacists then final consumers orient mainly towards drug trade name. Due to this fact it is necessary to look which drugs are produced under above mentioned INN.

*Table 6* shows top sales drugs for each INN included in TOP-10 (*Table 5*).

*Table 6*

**Leading brands within TOP-10 INN in Russia in the 1st halves of 2006-2007, %**

| Rating | INN | Leading brands by sales within their INN sectors | Share in INN sales, % | | Brands sales increase, % |
|---|---|---|---|---|---|
| | | | 1st half 2006 | 1st half 2007 | |
| 1 | Polyvitamin+multimineral | Vitrum | 22,0% | 23,0% | 10,1% |
| 2 | Enalapril | Enap | 38,8% | 40,4% | 12,7% |
| 3 | Pancreatine | Mexym Forte | 63,3% | 59,7% | 10,9% |
| 4 | Xylomethazolin | Otrivin | 23,3% | 22,1% | 21,8% |
| 5 | Methylphenylthiomethyl-dimethylaminomethyl-hydroxybromindol carbonic acid ethyl ester | Arbidol | 100,0% | 100,0% | 15,4% |
| 6 | Sildenafil | Viagra | 100,0% | 100,0% | 5,0% |
| 7 | Fluconazole | Diflucan | 26,5% | 28,7% | 23,2% |
| 8 | Polyvitamin | Milgamma | 41,4% | 46,5% | 25,7% |
| 9 | Ambroxol | Lazolvan | 42,0% | 51,2% | 79,0% |
| 10 | Ketoprofen | Factum | 56,3% | 47,1% | 9,5% |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Arbidol and Viagra stand out among top sales drugs by INN, which are the only drugs produced basing on the mentioned active substance. It is of interest that drugs, which along with Viagra are intended for erectile dysfunction treatment – Cialis and Levitra (closest competitors) are based on other INN: Cialis is based on tadalafil, Levitra is based on Vardenafil.

Otrivin and Lasolvan moved to the first place by share of sales value in their group due to higher price than that of other drugs from this group. Otrivin in its group is only on the fifth place by real sales volume (first place belongs to Xylene), and Lasolvan is on the second in its group (the first is for Ambrobene).

## 4. LEADERS AMONG DRUG MANUFACTURERS

Some drug manufacturers would prefer the customers to buy their drugs in double volume. But currently only certain companies are leaders on the commercial drug market, whose products are sold actively and do not stay on the pharmacy shelves for undefined period.

In the first half of 2007 about 950 drug manufacturers were represented on the Russian pharmacy market. But we will review only TOP-10.

*Table 7* shows TOP 10 manufacturers by sales value as well as top sales drugs by each manufacturer.

*Table 7*

**TOP-10 drugs manufacturers by sales volume on the Russian commercial market (in value terms) in Russia in the 1st halves of 2006-2007**

| Rating | | Manufacturers | Share by sales value, $ % | | Share by sales volume, units, % | | Leading brands of the manufac-turers | Share of the brand in total sales of its manufac-turer, % |
|---|---|---|---|---|---|---|---|---|
| 1st half 2006 | 1st half 2007 | | 1st half 2006 | 1st half 2007 | 1st half 2006 | 1st half 2007 | | |
| 1 | 1 | Sanofi-Aventis | 4,4% | 4,5% | 1,5% | 1,6% | Essentiale | 16,3% |
| 5 | 2 | Pharmstandard | 2,7% | 4,0% | 7,6% | 7,8% | Arbidol | 25,4% |
| 2 | 3 | Berlin-Chemie /A.Menarini/ | 3,6% | 3,7% | 1,6% | 1,9% | Mezym Forte | 18,1% |
| 3 | 4 | Gedeon Richter | 2,9% | 2,9% | 1,1% | 1,1% | Cavinton | 15,7% |
| 8 | 5 | Nycomed | 2,6% | 2,9% | 0,7% | 0,9% | Actovegin | 30,5% |
| 9 | 6 | Lek DD | 2,3% | 2,7% | 0,9% | 1,1% | Linex | 25,3% |
| 4 | 7 | Pfizer International Inc. | 2,8% | 2,6% | 0,4% | 0,5% | Viagra | 31,7% |
| 6 | 8 | Novartis | 2,6% | 2,6% | 0,8% | 0,8% | Teraflu | 25,1% |
| 10 | 9 | KRKA | 2,2% | 2,2% | 0,9% | 1,0% | Enap | 33,0% |
| 7 | 10 | Servier | 2,6% | 2,2% | 0,4% | 0,4% | Detralex | 21,0% |
| | | **Total share of TOP-10** | **28,7%** | **30,3%** | **15,9%** | **17,1%** | | |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Sanofi-Aventis remains the leader of TOP-10 manufacturers. Pharmstandard moved from the fifth to the second place by increasing its sales volumes by 67%. Two brands of this company entered the TOP-10 of the market: Arbidol (the first place) and Pentalgin (the 10th place).

Lek DD (+4 positions) moved to the sixth place with growth rate of 35%. Its success resulted from increase in sales of Linex by 61%.

Also Nycomed company can be mentioned, which increased by 31% mainly due to Concor, whose sales value increased by 60%. Concor is the second drug by sales value after Actovegin (30.5% of the whole drug sales by Nycomed in Russian commercial market).

Less successful was this half year for Pfizer International inc. This manufacturer moved to the seventh place from the forth place in ranking in the first half of 2006. Sales growth by 11% appeared to be insufficient to retain its positions. Almost a third of total sales (31.7%) belongs to Viagra, which significantly influences overall sales volume of Pfizer International inc.

Viagra sales growth in the first half of 2007 compared to the same period of the previous year amounted only to 5%. And although Viagra is undoubtful leader among drugs for erectile dysfunction treatment, its nearest competitors – Cialis and Levitra – in the first half of 2007 reduced the gap and grew by 18% and 22%, respectively.

# 5. TOP SALES PRODUCTS

Welfare of manufacturers depends on quality of the product they produce. Each company wants to have well sold drugs in its portfolio.

In Russia in the first half of 2007 slightly more than 6000 trade names were represented in pharmacy sales. And it is natural that among such diversity of drugs (although intended for different nosologies) the competitiveness is high. But majority of drugs, which entered TOP-20 by pharmacy sales volume in Russia in the first half of 2007 retain their ranking position securely.

We are glad to know that TOP-20 is represented not only by imported drugs but by domestic drugs as well. For example leader of the list is Russian drug Arbidol, which has retained its position since the first half of 2006, Mexidol grew by 46% and in the first half of the current year is on the twelfth place, Pentalgin (+34%) took the tenth place and Anaferon (+27%) is on the seventeenth place.

TOP-20 drug trade names by sales volume on Russian commercial pharmacy market in the first half of 2006-2007 are shown in *Table 8.*

*Table 8*

**TOP-20 drug brands by commercial sales volume in Russia in the 1st halves of 2006-2007, %**

| Rating | | Brand | Share by sales value, $, % | |
|---|---|---|---|---|
| 1st half 2006 | 1st half 2007 | | 1st half 2006 | 1st half 2007 |
| 1 | 1 | Arbidol | 0,97 | 1,01 |
| 3 | 2 | Actovegin | 0,92 | 0,87 |
| 2 | 3 | Viagra | 0,93 | 0,82 |
| 5 | 4 | Essentiale | 0,80 | 0,73 |
| 7 | 5 | Enap | 0,74 | 0,72 |
| 6 | 6 | Vitrum | 0,76 | 0,70 |
| 17 | 7 | Linex | 0,50 | 0,68 |
| 9 | 8 | Teraflu | 0,68 | 0,66 |
| 8 | 9 | Mezym Forte | 0,71 | 0,66 |
| 14 | 10 | Pentalgin | 0,53 | 0,61 |
| 10 | 11 | No-Spa | 0,66 | 0,59 |
| 20 | 12 | Mexidol | 0,46 | 0,57 |
| 15 | 13 | Preductal | 0,53 | 0,54 |
| 11 | 14 | Xenical | 0,63 | 0,53 |
| 30 | 15 | Nurofen | 0,39 | 0,51 |
| 29 | 16 | Mildronat | 0,39 | 0,50 |
| 22 | 17 | Anaferon | 0,45 | 0,48 |
| 36 | 18 | Concor | 0,36 | 0,48 |
| 25 | 19 | Sumamed | 0,42 | 0,47 |
| 4 | 20 | Crataegus | 0,92 | 0,46 |
| | | **Total share of TOP-20** | | **12,59%** |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

***Note.*** *Whereas TOP 20 trade names list changes every month, the cumulative share of TOP 20 trade names for past months could not be indicated in this Table. Only ranking positions and shares of each trade name presented in the reported month are shown for previous months.*

Total share of TOP-20 drugs in the first half of 2007 amounts to 12.6%, which is slightly lower than in the first half of the previous year. This situation resulted from exclusion of several drugs from TOP-20, e.g.: Coaxil, Terpincod, Coldrex.

In the first half of this year the landmark event took place: longstanding unchallenged participant of TOP-5 ranking by pharmacy sales, Crataegus tincture, receded from its position. Sales volume reduced by 40% (to 15.7 mln dollars) and from the forth place it dropped to the twentieth.

The same situation is with Cayenne Pepper tincture, which moved from the thirteenth to the twenty-eighth place on sales ranking.

This resulted from desire of state authorities to reduce sales of alcohol-containing products through pharmacies and activities of the law-enforcement bodies to reveal illegal production of this drug. By the way from January 1, 2007 maximum volume of Crataegus tincture bottle may amount only to 25 ml, when before the most popular dose contained 100 ml, which was more comfortable for certain categories of consumers.

Lek DD drug Linex increased by 61%, which allowed it to move from the seventeenth to the seventh place in ranking.

Nurofen and Concor grew respectively by 53% and by 60%, due to this they moved from the third ten of ranking to the fifteenth and eighteenth places.

Sales of Grinex drug Mildronat increased by 49%, which allowed it to take 16$^{th}$ place in TOP-20. Among drugs of foreign manufacture Sumamed (Plivia) can be marked out, which takes last but one position in tops sales drug ranking. Sumamed sales increased by 33% in comparison with the first half of 2006.

## 6. NEW DRUGS

Ham and cheese sandwich is still ham and cheese sandwich even it is eaten bottom up. The same is on the pharmaceutical market – without change of components it hardly can change. But every year new drugs enter the market. Some of them will perish, another will make people talk about them and in future will change sales structure.

The interest in new drugs is always great. Pharmacies wait for them hoping that new star product will appear which will treat patients more efficiently. They are under close supervision of brand managers, manufacturers and their competitors. Fate of many people involved in their invention, manufacture and sales depend on their successful entrance on the market.

In the first half of 2007 in Russia pharmacy market 69 new trade names appeared[1]. Out of them 37 are imported drugs, 32 are domestic drugs. The total sales value of new drugs amounted to 2.9 million dollars (779 thousand packs).

Among new drugs more than half (56%) belongs to ATC [R] "Respiratory system drugs", 17% are cardiovascular system drugs (ATC [C]).

*Table 9* shows TOP-10 new trade names in Russian commercial market (in pharmacies) in 2007.

*Table 9*

**TOP-10 new trade names on the Russian drugs commercial market in the 1st half of 2007**

| Rating | Trade names | Manufacturers | INN | Sales volume, thousands $ |
|---|---|---|---|---|
| 1 | Amlodipine-Biocom | Biocom | Amlodipine | 699 |
| 2 | Fenistil Pencivir | Novartis | Penciclovir | 493 |
| 3 | Troxerutin Vetprom | VetProm AD | Troxerutin | 190 |
| 4 | Marimer | Laboratories Gilbert | Sea-water | 157 |
| 5 | Rheopolyglucin-40-Escom | Escom NPK | Dextran | 155 |
| 6 | Afala | Materia Medica | ~ | 154 |
| 7 | Teraflu Bro | Novartis | ~ | 121 |
| 8 | Lyrica | Pfizer | Pregabalin | 119 |
| 9 | Wilprafen Solutab | Astellas Pharma inc | Josamycin | 118 |
| 10 | Sleepex | Sagmel inc | ~ | 115 |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Although overall among new trade names respiratory system drugs prevail by sales volume, among TOP-10 new trade names the biggest sales volume is for cardiovascular system drugs – Amlodipin-Biokom and Trokserutin Vetprom.

Marimer based on sea water demonstrated quite good result as for newbie but as compared, for example, with Aqua Maris (in INN of which there is also sea water) – it is significantly lower by sales volumes (42-fold).

New drug Afala from manufacturer Material-Medica is intended for treatment of Benign Prostatic Hyperplasia (adenoma).

We are all familiar with Teraflu in powders or in tablets intended for treatment of the acute respiratory infections of upper respiratory tract and influenza. In this half year new Teraflu appeared – Teraflu Bro. It is also intended for treatment of upper respiratory tract (inflammatory and infectious inflammatory diseases) as well as bronchitis, tracheobronchitis and tracheitis. This drug is produced in the form of ointment and therefore is used externally.

Lyrica, which is on the eighth ranking position, is intended for treatment of neuropathic pain, which ordinary analgesics are incapable to handle. Lyrica is the only drug officially certified in Russia and Europe for treatment of all types of neuropathic pain. It appeared in Russian pharmacies in March of this year.

# 7. PRICE INDEX

*Laspeyres index* was used for the analysis of drug price dynamics in the first half of 2007.

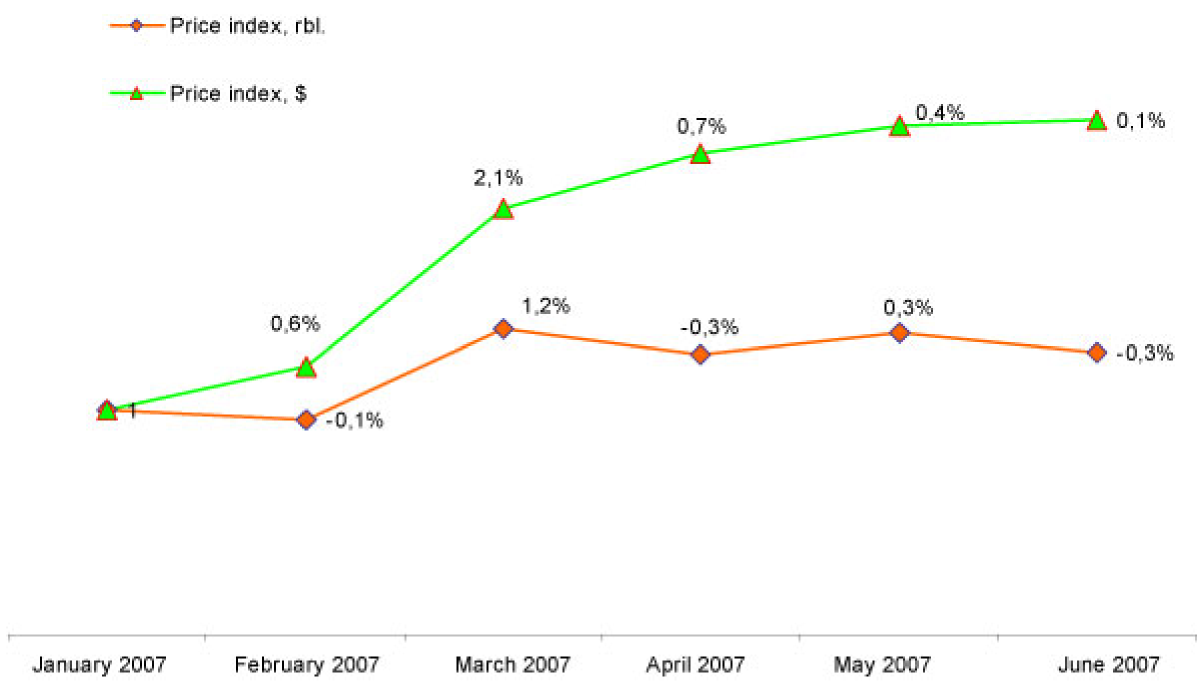
Laspeyres price index is the ratio of weighted average costs of reporting and base periods, where base drug consumption basket volumes (in real terms) are used as weights. Proportion of drug sales in 2006 was chosen as a consumption basket. Seasonal influence on consumption is minimized by implementation of this approach and as a result it is possible to estimate change in prices in January-June of 2007.

Price index was calculated on the basis of *all full names of all manufacturers listed in the DSM Group database over 2006*. January 2007 was used as a base period.

*Diagram 9* shows dynamics in ready-to-use drug prices according to Laspeyres index in the first half of 2007.

*Diagram 9*

**Price changes on the drugs commercial market in Russia in the 1st half of 2007**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

According to Laspeyres index, prices on Russian commercial market in the first half of 2007 increased in dollar terms by 3.9%, in ruble terms by 0.8%.

On the whole, inflation on consumer market amounted to 5.7%, and underlying inflation of consumer prices amounted to 3% (according to Ministry of Economic Development and Trade of the Russian Federation).

## 8. PROSPECTIVE GROUPS OF GOODS

By this day Russian pharmaceutical market, especially pharmacy sales sector tries to correspond with world trends. Structure of world pharmacy sales market is such: more than 50% of it is for non-medical groups of goods. Such groups include nutritional supplements, beauty products, medical purpose products, specialized nutrition, goods for children, goods for nursing and other parapharmaceutical products. Russian pharmacies try to meet modern requirements of consumers. A component of this process is entering in the product range of non-medical groups of goods.

In May 2007 DSM Group conducted study "Assessment of Russian pharmaceutical distributors in 2007". This project along with assessment of leading distributors' activity studied needs and priorities of pharmacies and their possible ways of development.

Study was conducted by poll of pharmacy managers of other persons making decisions on purchase of goods from distributors.

In all categories of pharmacies drugs prevail in the product range and number of positions of this group in the product range of pharmacies is constantly growing. It should be noted that in pharmacies quantity of new NS trade positions practically coincides with quantity of trade positions by beauty products.

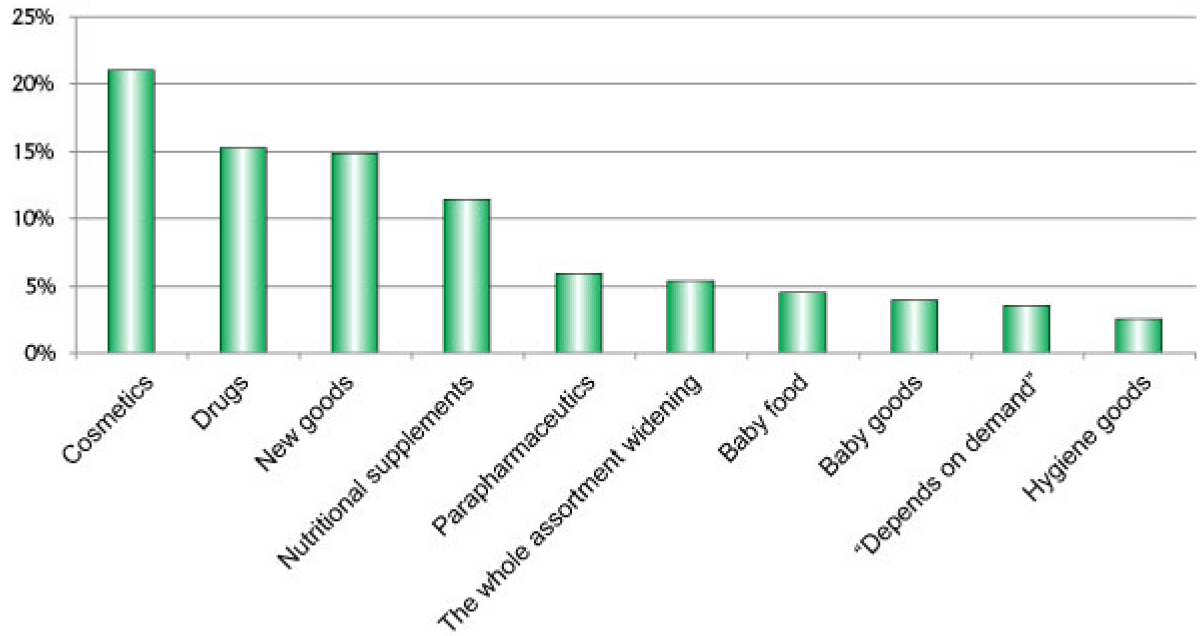
It is important that majority of pharmacies tries not so mach to expand their product range as to optimize it for client's need. Growth of trade groups "NS" (from 9.4% in 2006 to 12.8% in 2007) and "Beauty products" (from 8.2% in 2006 to 11.9% in 2007) was an outcome of such policy.

Almost half of the interviewed pharmacies (47.9%) understand the necessity to develop services provided and the product range and ready to work at that direction. The most prevalent direction of pharmacy development according to the respondents is expansion of product range of beauty products, the second place is for drug development, the third is for implementation of new products into the product range.

Diagram 10 shows ways of pharmacies' activity expansion in 2007.

*Diagram 10*

**Ways of pharmacies assortment widening in Russia in 2007**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

As we see pharmacies plan different ways to attract consumers. But at the moment the most noticeable activities are increase in product range of Beauty products and NS. In should be noted that in the opened question managers of pharmacies frequently specified such category as "New goods", which indicate desire of pharmacies to expand their product range by prospective goods.

Such new goods may include products belonging to beauty products and NS as well as rehabilitation products, goods for nursing, hygiene products.

## 9. BEAUTY PRODUCTS

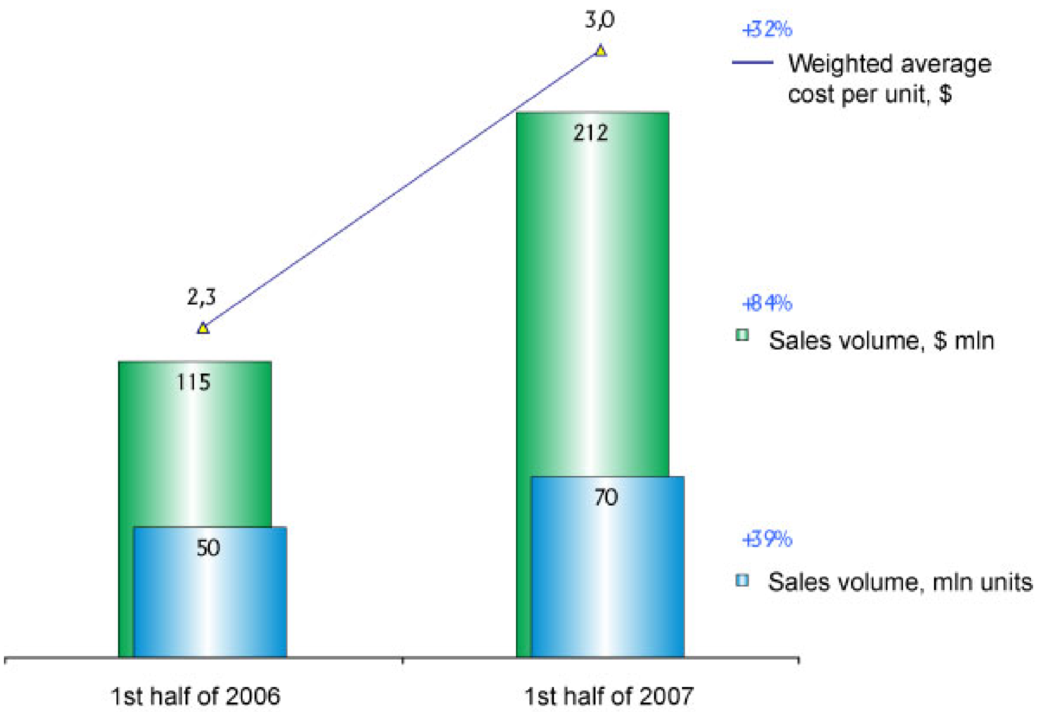
Last years parapharmaceutical products actively develop on the Russian pharmaceutical market (non-medical drugs sold in pharmacies). Most prospective segment of parapharmaceutical products is beauty products.

In the first half of 2007 pharmacy segment of beauty products exceeded NS sales volumes!

*Diagram 11* shows proportion of Russian beauty pharmacy market in the first half of 2007 compared to the first half of 2006.

*Diagram 11*

**Cosmetics pharmacy market in Russia in the 1st halves of 2006-2007**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

In the first half of 2007, beauty pharmacy market volume amounted to 212 million dollars, compared to the same period of 2006 volume of beauty products amounted to 115 million dollars therefore the market grew by 84%. Although market growth in ruble terms is lower it is also impressive: 75% to the level of 5.5 billion rubles. In real terms beauty market increased by a third to the same period of the previous year (39%).

Increase in price of the weighted average unit is also should be noted. In the first half of 2007 the price is 79.99 rubles (3.0 dollars), which is 32% higher than that in the same period of the previous year.

Pharmacy product range is specific by division of beauty products into medical (active), selective (premium and luxe class) beauty products and mass market beauty products.

Medical (active) beauty products are used for treating and preventing of certain diseases, contain different biologically active substances. Medical beauty products include brands Sophie (creams and balsams), Boro plus creams etc.

Mass market beauty products are beauty products affordable for majority of consumers intended for skin, hair and nails care. It is sold in pharmacies as well as in other sales outlets (supermarkets, specialized stores etc.).

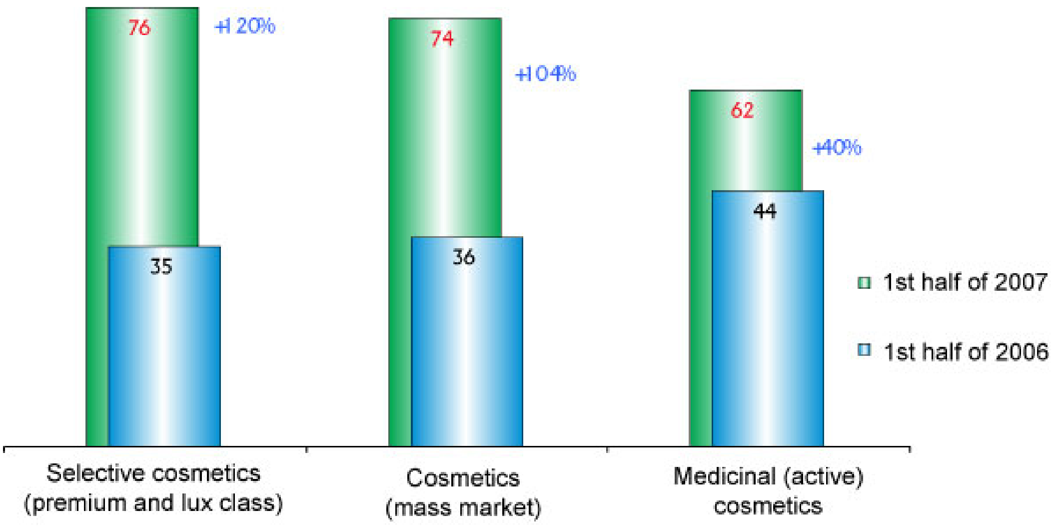
As a rule such beauty products do not contain selective agents, which save from particular problem, e.g. acne. Mass market beauty products include products of such manufacturers as, e.g. Garnier Laboratories, Nivea.

Selective (premium and luxe class) beauty products are elite, prestigious beauty products, which more frequently have cosmetic lines intended for particular states of skin and hare. Usually it is expensive products (approximately from 800 rubles per unit). Vichy Laboratories is one of the selective beauty manufacturers.

*Diagram 12* shows structure of pharmaceutical market in Russia.

*Diagram 12*

**Cosmetics pharmacy market sales structure in the 1st halves of 2006-2007, $ mln**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

In the first half of 2007 selective beauty products became sales leader - 76 mln dollars. Sales of mass market beauty products were slightly lower – 74 million dollars, and the last place is for medical beauty products – 62 million dollars.

Growth rate of segments of mass market beauty products and selective beauty products is +104% and +120%, respectively. It is these segments that have high share of foreign manufacturers. Domestic manufacturers are widely represented in medical beauty segment. Growth rate of this segment is significantly lower +40%.

*Table 10* shows top sales countries for each type of beauty products in the first half of 2007.

*Table 10*

**Leading countries by sales of various types of cosmetics in the 1st half of 2007**

| Types of cosmetics | Countries | Share of the country by cosmetics sales |
|---|---|---|
| Cosmetics (mass market) | USA | 27,3% |
| Medicinal (active) cosmetics | Russia | 63,8% |
| Selective cosmetics (premium and lux class) | France | 88,9% |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Top manufacturing countries can be highlighted by different types of beauty products: Russian products prevail by medical beauty sales. If among foreign medical beauty products we can see on pharmacy shelves only products for treatment of wrinkles, acne and pigmentation, the products of Russian manufacturers cover all problems: from varices to back pain.

In Russian manufacturers mass market beauty products prevail by number of trade names but even at existing diversity the buyers prefer to buy foreign brands. This is resulted from the fact that Russian consumer nowadays has sufficient funds to choose more prestigious products. Such choice is mainly dictated by western living standards and advertising, which increases level of trust to certain brands and these brands are not Russian.

Traditional leaders of selective beauty sales in Russian pharmacies are French beauty products.

Beauty products manufactured in the USA prevail among mass market beauty products.

*Table 11* shows TOP-10 beauty manufacturers by pharmacy sales volume in Russia.

*Table 11*

**TOP-10 cosmetics manufacturers by pharmacy sales volume (in value terms) in Russia in the 1st halves of 2006-2007**

| Rating | | Manufacturers | Share by sales value, $, % | | Sales increase, % |
|---|---|---|---|---|---|
| 1st half 2006 | 1st half 2007 | | 1st half 2006 | 1st half 2007 | |
| 1 | 1 | Vichy Laboratories | 20,9% | 20,0% | 76,4% |
| 3 | 2 | Johnson&Johnson | 4,4% | 6,1% | 154,7% |
| 2 | 3 | Fora-Farm | 10,9% | 5,9% | -0,6% |
| 4 | 4 | Lierac | 3,3% | 4,2% | 135,0% |
| 7 | 5 | La Roche-Posay | 2,1% | 4,1% | 259,7% |
| 6 | 6 | Pierre Fabre Dermocosmetique | 2,5% | 3,6% | 173,4% |
| 14 | 7 | Beiersdorf AG | 1,4% | 2,5% | 229,6% |
| 12 | 8 | Garnier Laboratories | 1,5% | 2,1% | 161,4% |
| 13 | 9 | Procter&Gamble | 1,4% | 1,7% | 115,0% |
| 27 | 10 | Sally Hansen | 0,7% | 1,6% | 320,1% |
| | | **Total share of TOP-10** | | **52,7%** | |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Vichy Laboratories became leader by beauty sales in the first half of 2006 and in the first half of 2007. Its share amounts to one fifth of the whole beauty sales volume in Russian pharmacies. Johnson&Johnson demonstrates significant growth rate (+155%) that together with reduction in sales of Fora-Pharm (by 1%) allowed it to take the second place in the ranking. Fora-Pharm decrease in sales volume is mainly resulted from the decrease of consumer interest to the main products: creams and balsams of Sophie brand (decrease in sales by 17% compared to that in the first half of 2006) and Dikul's balsams (-22% compared to the first half of 2006).

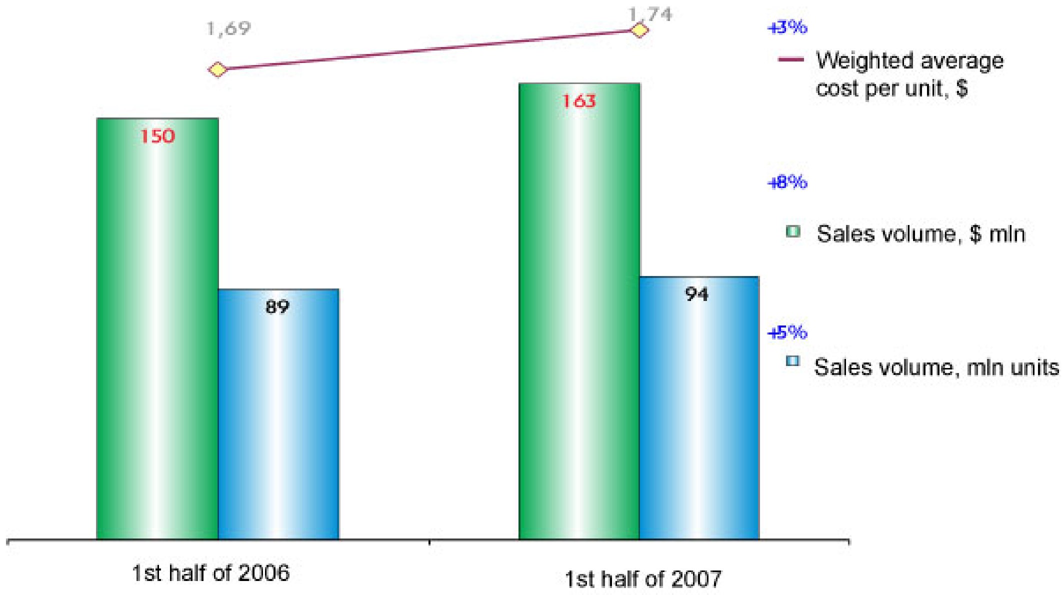
The biggest growth among manufacturers being in TOP-10 belongs to American company Sally Hansen (+320%) its share in Russian beauty pharmacy market increased by a factor of 2.5. This is resulted from increase in demand for nail-care products of Sally Hansen (nail-polishes, nail-polish removers, nail hardeners). Sally Hansen in the first half of 2007 takes the ninth ranking position.

Beiersdorf AG moved from the twelfth to the seventh place by increasing in pharmacy sales for products of this company under the Nivea brand.

*Diagram 13* shows proportion of Russian NS commercial market in the first half of 2006 compared to that of the first half of 2007.

*Diagram 13*

**NS pharmacy market in Russia in the 1st halves of 2006-2007**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

In the first half of 2007 commercial NS market volume amounted to 163 mln dollars, which is 8% higher than that in the same period of the previous year. In real terms the market grew by 5% to 94 million units. In ruble terms NS market volume increased by only 2% and amounted to 4.2 billion rubles. Such growth rate is rather low for NS market. For comparison in the first half of 2006 compared to that in the first half of 2005 NS market in value terms grew by 24% in dollar terms, and by 23% in ruble terms.

Tightening of governmental control over alcohol-containing products and implementation of the Uniform state automated information system (EGAIS) significantly influenced decrease in development of NS market. EGAIS is intended to automate governmental control over volume of production and sales of ethyl alcohol, alcohol and alcohol-containing products. Thus, members of the market need to purchase and implement respective equipment in order to enable sales of alcohol-containing nutritional supplements.

Also condition of NS market was influenced by the fact that as of July 1, 2006 the Federal Law "On Advertising" dated March 13, 2006 became effective. The law stipulates particular restriction in NS advertising, e.g. Article 25 (Clause 5) forbids telling that product has gone through clinical trials. According to Article 25 (Clause 5 and Clause 5) "the advertising should not contain statements or assumptions on presence at advertising consumers of one or another illnesses or health disorders and also to assist in creation for healthy person an impression of necessity to apply subject of advertising".

Reduction of NS market volume by 12% in value terms in the second half of 2006 compared to the first half might be a confirmation for this assumption.

Increase of the weighted average price per NS package significantly lower than drug unit. In the first half of 2007 standard NS package costs 1.74 dollar, which is 3% higher than that in the previous year. If comparing the weighted average cost per NS package in ruble terms we can see that cost of standard NS package reduced by 3% to 45.3 rubles.

*Table 12* shows NS sales by manufacturing countries.

*Table 12*

**NS by pharmacy sales volume in Russia (in value terms) in the 1st halves of 2006-2007**

| Country of origin | Domestic and imported NS sales, % | |
|---|---|---|
| | 1st half 2006 | 1st half 2007 |
| Russia | 69% | 70% |
| Imported | 31% | 30% |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

While foreign drugs prevail on commercial drug market over domestic ones by sales value, Russia is unchallenged leader by sales (70%) on pharmacy NS market.

*Table 13* shows NS manufacturers with largest pharmacy sales volume in Russia in the first half of 2007.

*Table 13*

**TOP-10 NS manufacturers by pharmacy sales volume (in value terms) in Russia in the 1st halves of 2006-2007**

| Рейтинг | | Manufacturers | Share by sales value, $ % | | Share by sales volume, units, % | |
|---|---|---|---|---|---|---|
| 1st half 2006 | 1st half 2007 | | 1st half 2006 | 1st half 2007 | 1st half 2006 | 1st half 2007 |
| 1 | 1 | Evalar | 14,07% | 17,36% | 10,95% | 10,76% |
| 2 | 2 | Diod | 13,45% | 10,02% | 8,42% | 5,66% |
| 4 | 3 | Akva-MDT/Akvion | 5,43% | 5,43% | 2,89% | 2,57% |
| 7 | 4 | Nycomed | 2,34% | 3,61% | 0,65% | 0,97% |
| 10 | 5 | Ferrosan AG | 2,12% | 2,98% | 0,36% | 0,57% |
| 6 | 6 | Ecomir | 2,51% | 2,93% | 0,98% | 1,01% |
| 11 | 7 | Pharma Med | 2,04% | 2,73% | 0,26% | 0,33% |
| 12 | 8 | Natur Produkt | 1,88% | 2,50% | 3,48% | 4,34% |
| 9 | 9 | Vis | 2,14% | 2,29% | 0,49% | 0,38% |
| 3 | 10 | Peking Jedemen Tea sales Centre | 6,97% | 1,67% | 0,95% | 0,24% |
| | | **Total share of TOP-10** | | **51,51%** | | **26,83%** |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Evalar and Diod retain their leading positions in the ranking of NS manufacturers. But while Evalar increased its sales (by 30% compared to the first half of 2006), sales volumes of Diod reduced by 19% this was resulted from decrease in sales of main product of this company - Capilar.

Ferrosan AG significantly improved its positions in the ranking with sales growth of 52%. Almost quarter of sales volume of this manufacturer is ensured by sales of Bifiform Kid, whose sales increased by 80%. In addition sales volumes of nutritional supplement Imedeen Prime Renewal increased by a factor of 4.5.

PharmaMed and Natur Produkt also can be marked out; their growth rates amounted to 45% and 44% respectively.

Nycomed grew by 67%. Sales volume of drugs under brands “Gerimax” and “Sana-Sol” increased by 107% and 21%, respectively.

Among manufacturers, which entered TOP-10, there is one with significant impairment of positions on the NS market; this manufacturer is Peking Jedemen Tea sales Centre. If in the first half of 2006 as compared to the first half of 2005 decrease in products sales volume of this manufacturer amounted to 30%, in the first half of 2007 as compared to the first half of 2006 – 70%. This situation resulted from decrease in sales by 87% of most popular product of this company - “Jedemen Slimming Tea”.

*Table 14* shows TOP-10 NS by pharmacy sales volume in Russia.

*Table 14*

**TOP-10 NS by pharmacy sales volume (in value terms) in Russia in the 1st halves of 2006-2007**

| Rating | | Brands | Manufacturers | Share by sales value, $ % | |
|---|---|---|---|---|---|
| 1st half 2006 | 1st half 2007 | | | 1st half 2006 | 1st half 2007 |
| 1 | 1 | Capilar | Diod | 7,65% | 5,83% |
| 5 | 2 | Bilberry-Forte | Evalar | 2,79% | 2,73% |
| 4 | 3 | Ovesol | Evalar | 2,92% | 2,65% |
| 3 | 4 | AlphaVIT | Akva-MDT/Akvion | 2,95% | 2,13% |
| 6 | 5 | Lutein Complex | Ekomir | 1,93% | 1,77% |
| 16 | 6 | Gerimax Energy | Nycomed | 0,93% | 1,70% |
| 9 | 7 | Lactofiltrum | Sti-Meds Sorb | 1,33% | 1,59% |
| 7 | 8 | Viardo | Diod | 1,61% | 1,47% |
| 15 | 9 | Ateroklefit | Evalar | 0,93% | 1,40% |
| 17 | 10 | Turboslim-Day | Evalar | 0,93% | 1,32% |
| | | **Total share of TOP-10** | | | **22,6%** |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

***Note.*** *Whereas TOP 10 NS trade names list changes every month, the cumulative share of TOP 10 members for past months could not be indicated in this Table. Only ranking positions and shares of each trade name presented in the reported month are shown for previous months.*

As in the previous year Capilar (Diod) became sales leader. In spite of sales decrease by 19 % this drug is still ahead of its nearest competitor, which is Bilberry-Forte by more than twice by sales volumes.

Highest increase in the ranking belongs to Gerimax Energy (2.8 mln dollars, +98% compared to that in the first half of 2006). Sales volumes of drugs manufactured by Evalar also increased: Bilberry-Forte and Ovesol entered TOP-3 and took the second and the third position, respectively, Ateroklefit with growth rate of 63% moved from the fifteenth to the ninth position and Turboslim-day with growth rate of 54% from the seventeenth to the tenth position.

## 11. REIMBURSEMENT PROGRAM

Funds for Reimbursement program (DLO) are allocated by the government that is why accounting is very important in the course of its implementation: how much money was spent, for what drugs, and for which particular nosologies treatment.

DLO Program was launched on January 1, 2005. At that time 50.8 billion rubles were allocated for it. By the end of the year according to data of the Russian Ministry of Health and Social Development only 80% of allocated amount was actually spent. Distributors delivered drugs to regions for the amount of 46 billion rubles, 41 billion rubles were paid. Amount of 4.5 billion rubles was transferred to 2006. Taking it into account the DLO Program budget in 2006 amounted to 34.1 billion rubles. Actual expenses for the program turned out to be twice more than planned - 74.5 billion rubles.

Thus, total deficit of funds required for completion of settlements for actually sold drugs in 2006 amounted to 40 billion rubles.

In the first half of 2007 additional funds of the federal budget were allocated in the amount of 16 billion rubles to cover debt of 2006, which allowed to reduce the deficit to 24 billion rubles.

In 2006 18 billion rubles of additional funds are planned to complete settlements for actually sold drugs. But even this sum is insufficient to repay debts in full.

From the second half of 2007 the Fund of Obligatory Medical Insurance based on the specialized expert analytical system performs overall analysis to define reasonable volume of funds required for the final completion of settlements for 2006.

The government allocated 34.9 billion rubles to finance the DLO program in 2007. Additionally to these funds in the budged of the Federal Fund of Obligatory Insurance for 2008 33.3 billion rubles is planned to close drug supplies under the DLO Program in 2007.

In the first half of 2007 drugs were sold for the amount of 21.7 billion rubles. As estimated by DSM Group, expenses for DLO by the end of the year will amount to about 55 billion rubles.

In 2008 additional funds are planned for treatment of the so called super expensive pathologies within separate program, which will be out of the DLO Program. This relates to seven diseases: multiple sclerosis, hemophilia, cystic fibrosis, Gaucher's disease, hypophysial dwarfism, leukemia, rehabilitation after transplantation.

Fifty-two thousand people suffer from the above diseases in Russia, which is less than 1% of total beneficiaries. Major part of the whole federal program funds is spent for medicamental support of their health – from 16 to 20 billion rubles p.a., which is almost half of funds spent within the DLO Program.

Expensive pathologies will be transferred from the DLO Program into separate financing item from 2008. In the coming three years about 100 billion rubles will be allocated for this purposes.

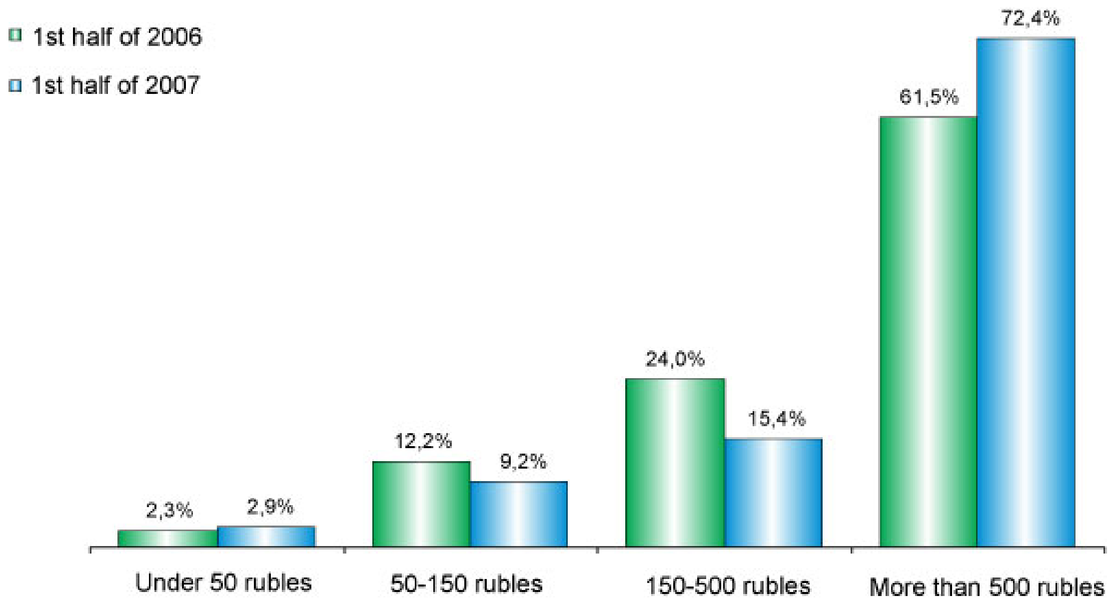
Funds for the principal DLO Program will not be reduced. Budget will be calculated basing on the number of beneficiaries remained in the DLO Program multiplied by cost of medical part of social package. It is planned that this limit will amount to 417 rubles.

It should be noted that only 30% of beneficiaries stay in the DLO Program, among these who participated in it in 2007. This very clearly demonstrates attitude of beneficiaries to the DLO Program implementation.

*Diagram 14* shows consumption dynamics of drugs with regard to various price categories in the DLO segment in the first half 2006-2007.

*Diagram 14*

**Comparison of sales values of drugs from various price categories on DLO market in Russia (1st halves of 2006-2007)**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

The great majority of drugs prescribed to beneficiaries under the DLO Program cost more than 500 rubles. Such situation as we see retained since the first half of 2006. Moreover, expensive drugs increased their share in the DLO segment: in the first half of 2006 drugs, which cost more than 500 rubles amounted to 61.5% of the total sales volume, now – 72.4%.

At the same time, share of drug sales, which are in price range from 50 to 150 rubles and from 150 to 500 rubles reduced by 3% and 8.6%, respectively. Change of cheap drug share (below 50 rubles) is insignificant.

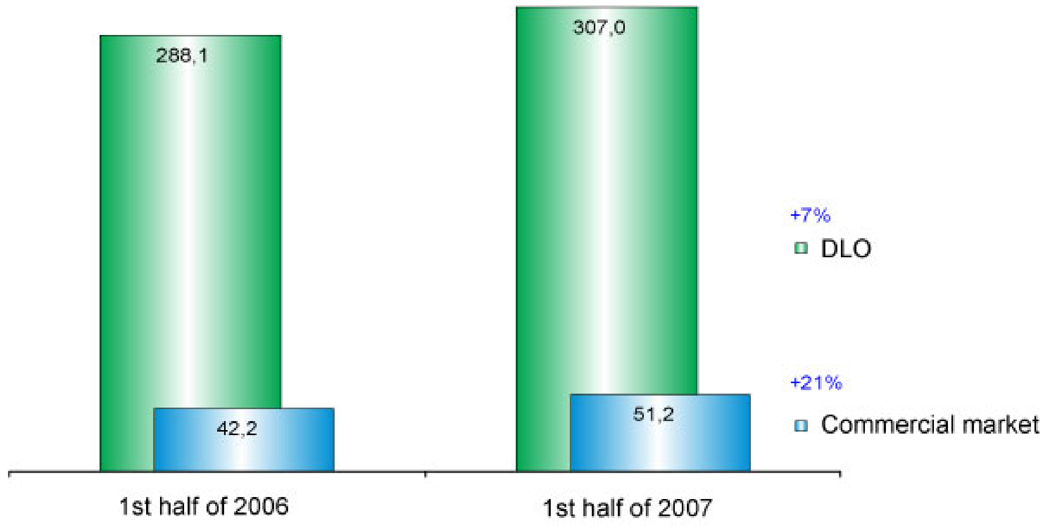
Such distribution of drug sales volume in different price segments within the DLO Program is resulted from the fact that in the program remained mainly beneficiaries, whose diseases require expensive treatment and, respectively, refusal to participate in the program and monetary compensation are irrelevant for them.

As we saw before, the significant share in the DLO segment belongs to expensive drugs, which naturally influence average price per drug package in this segment.

*Diagram 15* below shows change of average drug package cost on Russian commercial market and in the DLO segment in the first half of 2006-2007.

*Diagram 15*

**Weighted average cost per unit (in consumer prices) in the 1st halves of 2006-2007**




**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Increase of the weighted average price per NS package in the commercial market amounts to 21%, which is significantly higher than that in the DLO segment (7%). But the weighted average price per package in the DLO segment in the first half of 2007 is 6 times more than that on the commercial market.

*Table 15* shows proportion of 1st level ATC groups by pharmacy sales in the DLO segment.

*Table 15*

**1st level ATC-groups ratio in DLO segment in the 1st halves of 2006-2007**

| 1st level ATC-groups | Share by sales value, $, % | | | Share by sales volume, units, % | | |
|---|---|---|---|---|---|---|
| | 1st half 2006 | 1st half 2007 | Share change | 1st half 2006 | 1st half 2007 | Share change |
| L: Antineoplastic and immunomodulating agents | 25,0% | 35,6% | 10,6% | 1,2% | 0,8% | -0,4% |
| A: Alimentary tract and metabolism | 16,4% | 16,5% | 0,1% | 18,5% | 14,8% | -3,7% |
| C: Cardiovascular system drugs | 18,3% | 12,6% | -5,7% | 36,0% | 33,1% | -2,9% |
| N: Nervous system drugs | 14,4% | 10,1% | -4,2% | 19,8% | 15,3% | -4,6% |
| B: Agents affecting blood and blood forming organs | 7,9% | 8,2% | 0,3% | 2,9% | 19,7% | 16,8% |
| R: Respiratory system drugs | 5,2% | 6,9% | 1,6% | 4,8% | 4,7% | -0,1% |
| M: Musculoskeletal system drugs | 5,5% | 3,7% | -1,8% | 8,6% | 6,0% | -2,6% |
| H: Systemic hormonal preparations (excluding sex hormones) | 2,6% | 3,3% | 0,7% | 1,1% | 0,9% | -0,2% |
| J: Antibacterials for systemic use | 1,9% | 1,2% | -0,7% | 2,9% | 1,7% | -1,2% |
| G: Genitourinary system drugs and sex hormones | 1,6% | 0,9% | -0,7% | 0,5% | 0,4% | -0,1% |
| S: Agents affecting sensory organs | 0,9% | 0,6% | -0,3% | 3,0% | 2,1% | -0,8% |
| V: Various | 0,1% | 0,3% | 0,2% | 0,1% | 0,0% | -0,1% |
| D: Dermatologicals | 0,2% | 0,1% | -0,1% | 0,7% | 0,5% | -0,1% |
| P: Antiparasitic products, insecticides and repellents | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| [~] Without allocation (homeopathic preparations, plant and animal drugs, substances etc.) | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

As in the previous half-year the first place by sales value in the DLO Program belongs to group [L] "Antineoplastic and immunomodulating agents". Share of this ATC group increased up to 35.6%.

Drugs of ATC-groups [C] "Cardiovascular system drugs" and [N] "Nervous system drugs" reduced significantly their share in the DLO segment to 12.6% and 10.1%, respectively.

TOP-10 drug manufacturers by sales volume in the DLO segment are shown in *Table 16.*

*Table 16*

**TOP-10 drug manufacturers by sales volume in DLO segment in the 1st halves of 2006-2007**

| Rating | | Manufacturers | Share by sales value, $ % | | Share by sales volume, units, % | |
|---|---|---|---|---|---|---|
| 1st half 2006 | 1st half 2007 | | 1st half 2006 | 1st half 2007 | 1st half 2006 | 1st half 2007 |
| 2 | 1 | Novartis | 7,0% | 12,3% | 0,5% | 0,6% |
| 1 | 2 | Janssen Pharmaceutica N.V. | 7,3% | 10,5% | 0,6% | 0,4% |
| 3 | 3 | F.Hoffmann-La Roshe LTD | 6,7% | 8,8% | 0,2% | 0,3% |
| 5 | 4 | Novo Nordisk | 4,5% | 7,7% | 0,9% | 1,2% |
| | 5 | Bayer Schering Pharma AG | - | 5,2% | - | 0,1% |
| 6 | 6 | AstraZeneca UK LTD | 4,0% | 4,7% | 0,7% | 0,4% |
| 12 | 7 | Teva Pharmaceutical Industries LTD | 2,6% | 4,0% | 0,4% | 0,3% |
| 4 | 8 | Sanofi-Aventis | 6,4% | 3,3% | 4,8% | 1,1% |
| 8 | 9 | Eli Lilly | 3,5% | 2,4% | 0,6% | 0,5% |
| 14 | 10 | Boehringer Ingelheim | 2,6% | 2,4% | 1,9% | 1,7% |
| | | **Total share of TOP-10** | | **61,38%** | | **6,56%** |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

DLO manufacturers' ranking considerably differs from the commercial market ranking. While on the commercial market a buyer may choose among the overall diversity of drugs the one that is most suitable for him/her in value terms, by effect of by other characteristics, on the DLO market there is a list of drugs allowed for prescription. Sales of manufacturer in the DLO segment depend on the drugs of which manufacturers will be presented in this list.

Novartis keeps the leading position on the DLO market, its product sales volumes increased by 41%, Novo Nordisk also demonstrates high growth rate (+38% compared to that in the first half of 2006). Teva Pharmaceutical Industries LTD with growth rate of 29% moved upwards from the twelfth to the seventh place.

Among manufacturers, which sales volumes reduce in the DLO market, Sanofi-Aventis should be noted (-58% compared to that in the first half of 2006) and Eli Lilly (-44% compared to that in the first half of 2006).

*Table 17* shows TOP-10 drug trade names by pharmacy sales volume in the DLO segment in the first half of 2006 - 2007.

*Table 17*

**TOP-10 drug brands by sales volume in DLO segment in the 1st halves of 2006-2007**

| Rating | | Brands | Manufacturers | ATC-group | Share by sales value, $ % | |
|---|---|---|---|---|---|---|
| 1st half 2006 | 1st half 2007 | | | | 1st half 2006 | 1st half 2007 |
| 1 | 1 | Glivec | Novartis | L: Antineoplastic and immunomodulating agents | 3,6% | 6,3% |
| 6 | 2 | Betaferon | Bayer Schering Pharma AG | L: Antineoplastic and immunomodulating agents | 1,8% | 4,4% |
| 4 | 3 | Velcade | Janssen Pharmaceutica N.V. | L: Antineoplastic and immunomodulating agents | 2,1% | 4,0% |
| 8 | 4 | Eprex | Janssen Pharmaceutica N.V. | B: Agents affecting blood and blood forming organs | 1,5% | 3,1% |
| 36 | 5 | Copaxone-Teva | Teva Pharmaceutical Industries LTD | L: Antineoplastic and immunomodulating agents | 0,7% | 2,6% |
| 16 | 6 | Lantus | Sanofi-Aventis | A: Alimentary tract and metabolism | 1,2% | 2,2% |
| 39 | 7 | Novoseven | Novo Nordisk | B: Agents affecting blood and blood forming organs | 0,7% | 2,0% |
| 3 | 8 | Rispolept | Janssen Pharmaceutica N.V. | N: Nervous system drugs | 2,2% | 2,0% |
| 32 | 9 | Seretide | Glaxosmithkline | R: Respiratory system drugs | 0,8% | 1,9% |
| 12 | 10 | Mabthera | F.Hoffmann-La Roshe LTD | L: Antineoplastic and immunomodulating agents | 1,3% | 1,6% |
| | | **Total share of TOP-10** | | | | **30,2%** |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

Half of drugs included in TOP-10 belongs to the group [L] "Antineoplastic and immunomodulating agents" – these are TOP-3: Glivec, Betaferon, Velcade and drug, which took fifth place Copaxone-Teva, and the tenth place - Mabthera. Generally, drugs of this ATC group and those, which are included in the TOP-10 amount about to 20% of the whole DLO market.

# 12. HOSPITALS SEGMENT

In the first half of 2007 volume of the hospitals segment amounted to 904 mln dollars (23.8 billion rubles) in value terms. Compared to the year-ago period, the hospitals market increased by 24% in dollar terms, and by 19% in ruble terms.

*Table 18* shows TOP-10 drug manufacturers by sales in the hospitals segment in the first half of 2006 - 2007.

*Table 18*

**TOP-10 drugs manufacturers by sales volume (in value terms) in hospitals segment in the 1st half of 2007, %**

| Rating | Manufacturers | Share by sales volume in the 1st half of 2007, % | |
|---|---|---|---|
| 1st half 2007 | | In value terms, $ | In real terms, units |
| 1 | Sanofi-Aventis | 6,3% | 1,0% |
| 2 | Veropharm | 3,6% | 2,2% |
| 3 | Gedeon Richter | 3,6% | 1,3% |
| 4 | AKO Sintez | 3,1% | 13,1% |
| 5 | Nycomed | 3,0% | 0,6% |
| 6 | AstraZeneca UK LTD | 2,9% | 0,1% |
| 7 | Lek DD | 2,9% | 0,7% |
| 8 | Otechestvennye Lekarstva | 2,4% | 5,7% |
| 9 | F.Hoffmann-La Roshe LTD | 2,4% | 0,0% |
| 10 | Glaxosmithkline | 2,2% | 0,2% |
| | **Total share of TOP-10** | **32,49%** | **24,93%** |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

The leader among manufacturers by drug sales volumes on the hospital market is Sanofi-Aventis; it holds 6.3% of the whole hospitals segment. Its nearest competitors Veropharm and Gedeon Richter fall behind by sales volumes by almost twice.

*Table 19* shows TOP-10 drugs by sales volumes in the hospitals segment in the first half of 2006 - 2007.

*Table 19*

**TOP-10 medications by sales volume in hospitals segment in the 1st half of 2007, %**

| Rating<br>1st half 2007 | Medication | Share by sales volume (in value terms) in the 1st half of 2007, $, % |
|---|---|---|
| 1 | Sodium chloride | 3,6% |
| 2 | Glucose | 2,4% |
| 3 | Meronem | 1,5% |
| 4 | Cefazolin | 1,4% |
| 5 | Eprex | 1,0% |
| 6 | Tienam | 1,0% |
| 7 | Taxotere | 0,9% |
| 8 | Actovegin | 0,9% |
| 9 | Amoksilav | 0,8% |
| 10 | Arduan | 0,8% |
| | **Total share of TOP-10** | **14,4%** |

**Source**: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets **ISO 9001:2000** requirements.

The drug consumption structure within the hospitals segment of Russian pharmaceutical market differs from the drug consumption structure on commercial market or in the DLO segment because of the specifics of in-patient treatment, where injections or intravenous infusion of various drugs are often required. Because of this on the hospital market the leading positions in drug ranking are taken by drugs such as Sodium chloride (3.6%), Glucose (2.4%), Meronem (1.5%).

## 13. PHARMACY NETWORKS

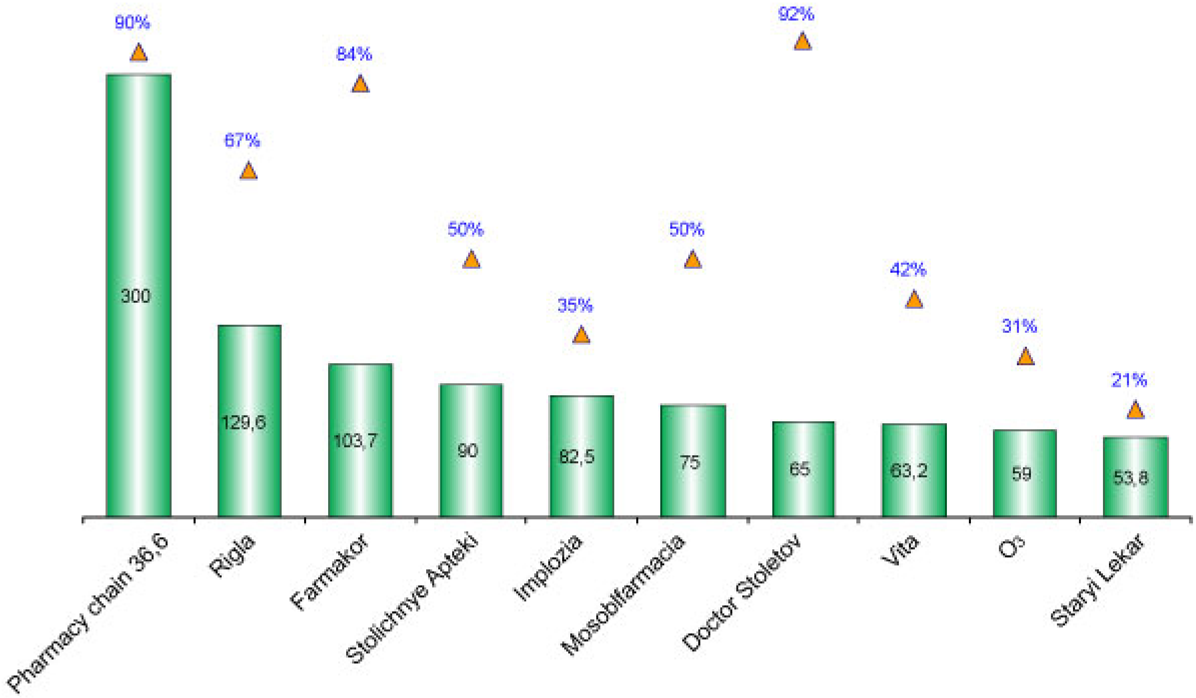
Money is everybody's concern. In the first half of the year large network players of Russian pharmaceutical market resumed the implementation of large-scale plan for territorial extension. This in turn makes small regional networks to modernize in order to be sold profitably.

Development of pharmacy networks goes on not only due to purchase of existing regional players but also due to organic growth. All large pharmacy networks actively increase their turnover and grow much faster than the market.

*Diagram 16* shows ranking of pharmacy networks by commercial sales turnover in the first half of 2007 and growth rate compared to the first half of 2006.

*Diagram 16*

**Pharmacy nets rating by their commercial sales volume in the 1st half of 2007; growth rate to the 1st half of 2006**




**Source**: DSM Group.

In the first half of the current year we read a lot of news about acquisitions of large pharmacy networks. Pharmacy network "36.6" was mentioned most frequently, which showed almost hundred percent growth compared to the first half of the previous year and appeared on the top of the ranking by commercial sales volume.

Turnover of the leader in retail sector exceeds almost by a factor of 2.5 commercial sales turnover of pharmacy network "Rigla", which is on the second place.

High sales growth rate was demonstrated by "Doctor Stoletov" (+92%), "Pharmakor" (+84%) and "Rigla" (+67%).

Maximum number of pharmacies belongs to pharmacy network "36.6" – 936 of sales outlets in the first half of 2007. Nearest competitor by sales volume "Rigla" falls behind by pharmacies by almost twice. Most significant outlets growth has pharmacy network "Stariy Lekar" – 65%, although by nominal number of sales outlets it is the smallest network in TOP-10 (114 pharmacies). As in the previous half-year there is no growth observed for "Mosoblpharmacia" and "Stolichnye apteki".

## 14. IMPORT

Compared to the first half of 2006 in the first half of 2007 drug import volume in Russia decreased. If in the first half of 2006 drug import volume amounted to 3.018 billion dollars, in the same period of 2007 it amounted to 2.712 billion dollars (in customs prices[1]), which is 10% lower (taking into account all drugs).

Such great decrease in import has happened for the first time since the crisis of 1998.

The most significant cause for such big decrease is persisting situation of the first half-year with payments for imported drugs supplied in 2006 within the DLO Program. Western manufacturers and Russian distributors could adjust sales forecasts for Russia. Moreover, large reserves of goods were formed in the logistics chain of the DLO program during 2006.

Distributor companies and Representatives of foreign companies increased their share in the import structure.

*Table 20* shows shares of different drug importers in the Russian Federation in the first half of 2006 - 2007.

*Table 20*

**Shares in import value of different groups of drug importers in Russia in the 1st half of 2007, %**

| Rating | Importers | Share by import volume | |
|---|---|---|---|
| | | 1st half 2006 | 1st half 2007 |
| 1. | Distributor companies | 44,8% | 45,5% |
| 2. | Representatives of foreign companies | 41,9% | 42,8% |
| 3. | Direct import companies | 12,3% | 10,7% |
| 4. | Domestic drug manufacturers | 0,9% | 1,0% |
| | Total: | 100% | 100% |
| | **Import volume, billion $** | **3,018** | **2,712** |

**Source**: Diamond Vision.

In each of the presented groups drug import volume in Russia in the first half of 2007 decreased compared to that of the same period of 2006.

Volume of import supplied by the group "Direct import companies" decreased most significantly – by 26%, and supply volumes of each group decreased by 13%: "Distributor companies" and "Representatives of foreign companies". This was the exact cause of change in shares of each presented group.

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[1] Customs price does not include customs tax (mainly 10%), VAT (10%) and specific tax (0.15%).

*Table 21* shows TOP-10 distributors by drug import volume in Russia in January – June 2006 and 2007 and share in import of these distributors in the same period.

*Table 21*

**TOP-10 distributors by drug import volume in Russia in the 1st half of 2007, %**

| Rating | Distributors | Shares by import volume of group "Distributor companies"% | |
|---|---|---|---|
| | | 1st half 2006 | 1st half 2007 |
| 1 | SIA International | 23,4% | 23,8% |
| 2 | CV "Protek" | 26,9% | 20,0% |
| 3 | Genezis | 2,9% | 7,7% |
| 4 | Katren | 3,0% | 6,2% |
| 5 | Rosta | 5,9% | 5,2% |
| 6 | Apteka-Holding | 3,4% | 5,1% |
| 7 | Biotek | 5,9% | 3,7% |
| 8 | R-Farm | 2,2% | 3,3% |
| 9 | Moron | 2,4% | 3,2% |
| 10 | Shreya Corp. | 2,1% | 2,4% |

**Source**: Diamond Vision.

SIA International and CV "Protek" remain the largest distributors by import volume in the group "Distributor companies". In should be mentioned that although share of SIA International increased and share of CV "Protek" decreased, both companies suffer decrease in volume of imported supplies.

The most active companies on the market are Genesis (sales volumes increased almost by a factor of 2.3) and Alliance Healthcare (sales volumes increased almost by 30%). Although these companies demonstrate impressive growth rate they are still significantly fall behind the leaders.

*Table 22* shows TOP-10 drug manufacturers by drug import volume in the Russian Federation with regard to all groups of importers in the first half of 2007.

*Table 22*

**TOP-10 drugs import volume in Russia with regard to all group of importers in the 1st half of 2007, %**

| Rating | Manufacturers | Share by import volume, $ |
|---|---|---|
| 1st half 2007 | | 1st half 2007 |
| 1 | Sanofi-Aventis | 7,9% |
| 2 | Bayer Schering Pharma AG | 5,8% |
| 3 | Servier | 4,6% |
| 4 | Berlin-Chemie /A. Menarini/ | 3,9% |
| 5 | Gedeon Rihter | 3,4% |
| 6 | Novartis | 3,3% |
| 7 | Boehringer Ingelheim | 2,8% |
| 8 | Nycomed | 2,7% |
| 9 | KRKA | 2,5% |
| 10 | Pfizer | 2,5% |
| | **Total share of TOP-10** | **39,5%** |

**Source**: Diamond Vision.

The largest manufacturer by import volume in the Russian Federation is Sanofi-Aventis with its market share of 7.9%. In the end of 2006 Bayer Schering Pharma AG was formed by merging of Schering AG with concern Bayer AG. Already in 2007 this company demonstrates significant sales volumes, for the first half-year it took second place in the TOP-10 with 5.8% share of import value.

Also Servier should be noted in spite of decrease in import volumes, its share increased to 4.6%.

This section concerns the events on the pharmaceutical market in the first half of 2007.

## Manufacturers

Ural holding "Juno" holds negotiations with German company Merck regarding creation of joint production on the basis of its plant "Medsintez". In particular, negotiations concern construction of pharmaceutical substances shop floor, which costs about 50 million euros.

Moreover, according to RBCdaily management of the holding expects that Merck will transfer to the plant part of its production.

***RBCdaily, 06.02.07***

The revival of the domestic pharmaceutical industry, to all appearances, will take place owing to mass erection of shop floors of the so-called "test-tube assembly". The Russian authorities wait for foreign pharmaceutical giants to come in the country. Heads of federal services subordinated to the Russian Ministry of Health and Social Development did not conceal the fact that the are ready to grant to foreigners all privileges supposed for Russian companies.

In the nearest future Russian pharmaceutical market will become even more attractive from the investments point of view, states Andrey Mladentsev. Support program for Russian manufacturer developed by his authority already passed all approval procedures and now final signature is pending; it should be made any day by the First Deputy Prime Minister Dmitry Medvedev.

The clause in which it is written that from now on pharmaceutical production will be licensed by forms of manufactured products, and not by product range, which is performed at the moment became brand new in this program. It is expected that this will reduce the number of applications of enterprises to the "RosZdravNadzor" for additional licenses and allow faster launching of new drugs into production.

One more important issue concerns procedures for granting access to the domestic market for products manufactured abroad, here on the contrary the matter is about tightening control over suppliers, who should provide information on parameters of their production. Authorities do not want to believe importers without all required documentation anymore.

***Vremya Novostey, 06.07.2007***

IPO of Pharmstandard appeared to be very successful: the company earned about 880 mln dollars. Earnings will be transferred to shareholders' disposal. Foreign investors had special interest for securities. Already after offering the shares increased in price up to 62.5 dollars.

***RBCdaily, 07.05.07***

Till the end of summer U.S. pharmaceutical giant Pfizer is likely either to build a plant in Russia or to buy a profile player. Members of the market forecast Pfizer to follow the example of French Servier and construct a plant from scratch, as it will cost half as much to the company.

Pfizer will be the second large international pharmaceutical corporation building a plant in Russia. The pioneer is French Servier that completed construction of 40 million euros plant in the Moscow region in summer.

***Kommersant Daily, 25.07.2007***

On August 3 German Stada, which owns Russian "Nizhpharm" since 2005, announced the acquisition of pharmaceutical group "Makiz-Pharma", which has manufacturing facilities in Moscow and Ryazan. The deal will amount to 135 million euros. Experts note that because of this acquisition Stada enters into Russian market of the government purchases, where previously company had weak presence.

According to Stada's report the company through its subsidiary "Nizhpharm" acquires total assets of Russian group "Makiz-Pharma". The report notes that Russian market is prospective one, and acquisition of "Makiz-Pharma" opens access to sites with low prime cost of production as well as to scientific and research centers. The price of the deal will amount to 125 mln euros after deduction of net debt of Russian company at the moment of deal closing but will not exceed 135 million euros.

***RBCdaily, 06.08.2007***

One of the largest global pharmaceutical companies Merck Sharp & Dohme and "Otechestvennye lekarstva" announced about the start of cooperation. At the start the companies will jointly promote standard cardiologic brand, further the companies hope to cooperate in the field of hospital profile drugs. Furthermore, representative of Merck Sharp & Dohme mentioned interest of the company in the "initiation of certain phases of manufacturing process in Russia".

OAO "Otechestvennye lekarstva" and the Russian representation of Merck Sharp and Dohme will start a joint promotion in Russia of the original cardiac Renitec®. The executive director of OAO Otechestvennye lekarstva Alexander Itin and the managing director of Merck Sharp and Dohme in Russia, Ukraine and CIS countries Ricardo Cabeza de Vaca announced about this during the online conference that took place on September 10, 2007 in the RIA Novosti.

***Prime-TASS, 11.09.2007***

## Distributors

As became known to Kommersant yesterday investigators of the General Prosecutor's Office detained Vitaly Smerdov the president of GC "Protek", which is largest distributor of medicinal preparations in Russia. He was a witness under the highly publicized Federal Fund of Obligatory Medical Insurance (FFOMS) corruption case. Investigators changed the status of Mr. Smerdov to that of suspect deciding that a likely briber should be targeted too under a corruption case.

At General Prosecutor's Office they did not explained to the Kommersant what was the cause for change of the status of Vitaliy Smerdov. They even officially refused to admit the fact of his detention. According to one of versions he became another person involved in the highly publicized Federal Fund of Obligatory Medical Insurance corruption case. Last year General Prosecutor's Office detained several FFOMS managers of that time, including the director of the fund Andrey Taranov. All of them were charged with receiving large bribes from regional representations of the fund and drug distributors, which, according to investigation, for kickbacks became participants of different governmental programs including State Reimbursement Program (DLO).

***Kommersant Daily, 16.08.2007***

U.S. TPG Capital is self-confessedly interested in control stocks with price over 500 mln dollars in Russian companies. According to the Kommersant, TPG started negotiations regarding purchase of more than 50% in SIA International, the biggest pharmaceutical distributor of Russia.

***Kommersant Daily, 15.10.2007***

Another Russian pharmaceuticals distributor soon may have foreign investor. German pharmaceuticals distributor Celesio AG announced about its intention to buy a controlling package in the second largest player of this market in Russia – OAO Protek. Experts believe that attraction of partner with foreign capital is necessary for Protek in order to secure itself from possible attempts of company nationalization in the framework of creation of the government's Pharmaceutical Logistics Facility.

***RBCdaily, 16.10.2007***

## Governmental news

Ministry of Health and Social Development permitted physicians to decide independently how to fill beneficiary prescription: either by trade name or by INN. Till now drugs had to be specified in prescriptions only by their international nonproprietary names.

***Vedomosti, 07.05.07***

From January 1, 2009 the Ministry of Health and Social Development plans to forbid drugs non-compliant with international quality standards (GMP). Only 15-20 Russian pharmaceutical enterprises out of 600 at the moment comply with these requirements. Not all companies are capable to spend 10-20 mln dollars for re-equipment of production.

***Medportal.ru, 30.05.07***

T. Golikova has been appointed Minister of Public Health and Social Development in the new cabinet of ministers, who previously held the office of the First Deputy Minister of Finance. A source close to the Ministry's management has reported to the RIA "Novosti" that the ex-Minister does not intend to take up any administrative posts in public health, social development or labor office. Zurabov is unlikely to be employed in any other rank in government service. M. Zurabov has become resented by Russians often encouraged by politicians immediately after his appointment.

***Strana.Ru, 24.09.2007***

## DLO

Debt of pharmaceutical manufacturers and wholesale suppliers, which accumulated since summer of the previous year because of misbalances in financing the State Reimbursement Program (DLO), will be soon repaid. Yesterday the State Duma of the Russian Federation approved in the third reading amendments to the "Act of the budget of the Federal Fund of Compulsory Medical Insurance in 2007", to allot additional 16 billion rubles to partially repay indebtedness.

***Vremya Novostey, 22.02.2007***

According to Head of the Ministry of Public Health and Social Development Mikhail Zurabov, the DLO crisis is resulted from the fact that almost half of beneficiaries left the program and preferred to take money instead of medicine. At that in the end of the year many people of this category ensured to obtain maximum free medical reserve. Thus, in the end of 2005 33 million prescriptions were issued. Debt of the federal budget to suppliers amounted to more than 30 billion rubles by the end of 2006.

***Rian.ru, 19.03.2007***

Chairman of the Duma Committee for Healthcare Tatiana Yakovleva noted that new problem is about to happen in the DLO system, connected with failure to fulfill decision on expensive drugs.

T. Yakovleva said that she will try to make the law on expensive drugs appear in Duma at least for the beginning of May and by October it should be approved. At that it is impossible to list diseases in the law, this should be done by resolution of the government, because today, for example, there is no "bird flu" and tomorrow it may occur but it is not listed in the law.

However, Duma Committee according to T. Yakovleva will actively participate in preparing of this list. It should be specified in the law what is chronic socially significant diseases requiring expensive treatment.

***KM–News, 10.04.2007***

The Ministry of Public Health and Social Development is determined to change the DLO layout. If the proposals are passed in State Duma, later this year regional auctions will be held instead of federal tenders and distributors will be bound to adhere to a fixed markup in rubles regardless of the price of a medicine. Analysts suggest that a serious alteration of the composition of members in the program will be a result: with regional businesses including pharmacy networks taking over as the principal actors in the DLO market. At the same time, the novelties will mean lower margins and the loss of market shares to federal players.

***RBCdaily, 24.05.2007***

Roszdravnadzor cut down trade markups in medicinal chain. Yesterday this authority made public a statute "Of the setting of commercial markups to registered prices of medicines served to special public categories" that has already passed registration with the Ministry of Justice of Russia.

The document is to limit the margin of wholesalers and pharmacies and is supplemented with a vast attachment that schedules the ultimate limits to commercial markups in all Federation subjects. From now on, the sellers will have to consent to 6 to 20% at the most instead of 45 or 30% of the end price of a medicine (such markups were observed in several regions last year).

***Vremya.ru, 08.06.2007***

A new edition of the free of charge medicine list intended for beneficiaries within the DLO Program will become available at least in early August. The director of Federal Control Service in Health Care and Social Development Nikolay Yurgel ordered recently the establishing of a work team, which assignment he defined as such: "to issue proposals on the optimization" of the list of medicines that are to be beneficially served by government.

An "optimization" of the list under the present situation is sure to mean cuts on the list, a deputy head of Roszdravnadzor will run a team of scholars from 30 largest scientific and medical institutions of Russia and from medicine manufacturers associations, ARFP and AIPM.

***Vremya Novostey, 26.06.2007***

During a meeting with President of Russia Vladimir Putin, the Minister of Public Health and Social Development Mikhail Zurabov yesterday approved detachment out of a DLO Program the sector for provision of expensive drugs for particular categories of patients.

***Kommersant Daily, 19.07.2007***

Scandals related to unsuccessful implementation of the State Reimbursement Program may lead to set up of a state distribution corporation to purchase medicines.

As became known to the Kommersant the monopoly right to purchase medicines is supposed to be transferred to the state-owned "Pharmaceutical Logistics Facility". The organization of the corporation will rob private pharmaceutical distributors of a significant portion of their revenues; the authors of the state-owned pharmaceutical distributor concept have calculated that this will save at least 4 billion rubles in the budget in the next year only.

***Kommersant Daily, 21.08.2007***

In 2006, medicines suppliers delivered drugs worth 74.5 billion rubles under the DLO program. The budget was hardly to match the amount: the debt to suppliers rose to 40 billion rubles by the end of the year. The debt was partially repaid. It turned out yesterday that part of the money would have to be repaid by the suppliers themselves. The director of FFOMS D.Reinhart hopes that the budget will allot 18 billion rubles while all the medicines issued in 2006 cost 68 billion rubles. The chairman of the State Duma's Committee for Labor A.Isaev knows of just of additional 8 billion rubles. The fund will not pay for the remaining prescriptions as these are not substantiated, said D.Reinhart. The amount totals to 6.5 billion rubles. Either the pricing policies were breached during the prescription of medicines or these were fake prescription or they were not diagnosis-related, he explained.

***Vedomosti, 05.10.2007***

## Pharmacy networks

Pharmacy network «Rigla» announces about completion of the re-branding program in Moscow and in Moscow region.

All the chain's pharmacies in the Moscow region have been refurbished into health supermarkets as required by the company's new corporate identity.

The re-branding of the "Rigla" pharmacy chain that started in August of 2006 is a logical step in the structural change undertaken by the company since the adoption in 2005 of a new strategy aimed at obtaining leadership in the retail pharmaceutical market. The "Rigla" pharmacy chain looks to achieve a sales volume of $1 billion by the year of 2009, to open at least 1000 pharmacies and share as much as 10% of the retail pharmaceutical market.

***Pharmindex.ru, 30.07.2007***

The "36.6 pharmacy chain" announced unqualified IAS statements for the first quarter of 2007. The net loss of the company amounted to 5.7 million dollars while "36.6" received 0.3 million dollars net profit over a similar period last year. Furthermore, debt of "36.6" by the end of the first quarter of this year reached 259.2 million dollars. However, analysts consider that situation should not be dramatized: sales growth and increase in number of sales outlets is more important for the company at the moment. In fact consolidated sales of "36.6" for the reviewing period increased by 86.6%, and sales in the pharmacy segment doubled due to active network growth.

According to the statements of "36.6", consolidated sales in the first quarter of 2007 amounted to 185.1 mln dollars. Sales doubled in the pharmacy segment: from 72.7 million to 148.7 million dollars. Sales of "Veropharma" increased by 22.4% and amounted to 24.1 million dollars. Consolidated EBITDA in the first three months of the current year reached 8.3 million dollars (growth by 52.4%). However, if in the production segment EBITDA grew by 29.3% to 7.1 mln dollars, in retail segment this indicator decreased by 37.3% to 0.7 mln dollars. The net loss of retail network amounted to 4.2 million dollars while "Veropharm" and European Medical Center received profit of 5.5 million and 1.4 million dollars, respectively.

Negative indicator of net profit resulted mainly from decrease of gross margin in retail segment from 31.6 to 27% explained to RBC daily manager on relations with investors and corporative communications of the "Pharmacy chain 36.6" Mikhail Kolosov. "Pharmacy chain 36.6" actively develops in regions, where business profitability is lower than in Moscow: in regional network share of non-medical product range is lower, which is the source of income for pharmacies, he added. — This is expected and temporary adverse effect, with the lapse of time the situation should flatten". In order to increase profitability of retail unit "36.6" extends sales range of private label products, which are characterized by greater marginality and also reduces transport and logistics expenses due to development of the own logistic system, admitted analyst of IC "Finam" Sergey Filchenkov.

***RBCdaily, 03.08.2007***

Since the beginning of 2007 "Pharmakor" within the framework of implementation of regional development program opened pharmacies in 15 regions of Russia: in Lipetsk, Syktyvkar, Kirov, Perm, Orel, Rostov-on-Don, Cheboksary, Kursk, Bryansk, Smolensk, Izhevsk, Ekaterinburg, Ufa, Kazan, Voronezh. Pharmacy network currently has more than 250 pharmacies in 28 Russian cities.

***According to the "Pharmakor" press release***

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## About DSM Group

*To provide comprehensive, high quality and timely marketing research and full advertising support to the companies on the Russian pharmaceutical market*

The marketing agency DSM Group has been on the market since 1999. Two key service fields of the company are marketing research and advertising on the Russian pharmaceutical market.

**RESEARCH**

QMS meets ISO 9001:2000 requirements

- Monthly retail audit of the Russian pharmaceutical market, which you can see in 25 working days
- Hospital audit
- Reimbursement database
- Drugs and substances import database
- Multifactor analysis of competitors surrounding
- Monitoring and analysis of drug sales by distributors
- Monthly analysis of market capacity, tendencies and forecasts
- Ad-hoc research
- Pharmaceutical mass-media – pharmacies workers' estimation

**ADVERTISING**

- Design and corporate identity creation
- Souvenirs for pharmaceutical market
- Printing (QMS meets ISO 9001:2000 requirements )
- Promo actions and events (from 20 up to 1500 persons)
- Media buying
- Outdoor advertising
- Corporate video
- Direct-mail through Russian pharmacies database
- Marketing plans

There are about 60 specialists in pharmaceutics, marketing and advertising in the staff. Our experts' opinion is highly rated by pharmaceutical and business public.

With us you will use your company's potential more effectively, so reinforce and develop your business.

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