

**RUSSIAN
PHARMACEUTICAL
MARKET**

2014



PHARMACEUTICAL MARKETING

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-  **RETAIL AUDIT (MONTHLY DATA)**
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Analysis report
Russia's Pharma Market
At year end 2014

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Dear Colleagues,

I suppose you feel, as I do, that it has already happened with us. Everything repeated, except numbers in calendar and almost nothing is changed. We have the same problems again: the RUB exchange rate, shortfall in the funding, sluggish legislative activity. We like "to step on the same rake twice". This is such an experiment or a hope that the laws of physics would not work for us and the rake would not hit us. It is possible in principle. If someone step on the same rake frequently, it may break eventually. Alternatively, it is also possible to step the rake all together and the blow may fall on just one person. There are routes to move forward successfully, anyway! Therefore, many of our colleagues are taking this opportunity.

There will not be ever boring at our market, but we need a lot of patience to wait the moment when our pharmaceutical market will be among five largest markets in the world. It will happen for sure, but whether in 10 years or in 20 years. Could we wait until that day comes?

Sergey Shulyak,

General Director
DSM GROUP

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During the crisis period, the pharmaceutical market is the most sustainable segment of the economy because its social component is fairly strong. In 2014, like before, the market's biggest growth driver was the interventions from the regulator.

The RF State Duma passed in 2014 40+ draft laws pertaining to the public health service: the Federal Law to amend the Federal Law on Drug Commerce, which defines a great number of terms; a new List of Vital and Essential Drugs was approved; amendments were made to the RF legislative acts against commerce in fake, counterfeit, substandard and unregistered medicinal products and dietary supplements.

Of importance for the industry are decisions related to import substitution: rescheduling of the adoption of GMP standards by Russian producers to 1 January 2016; discussion of proposals for limiting the procurement of foreign-made drugs by the government; prolongation of public procurement preferences until 1 January 2016.

At year-end 2014, size of Russian pharmaceutical market was worth 1,152 bln rbl. (incl. of VAT) in the consumer prices, up 10% on 2013.

The Russian pharmaceutical market remains import-driven. 77% of consumer medicines in money terms are made abroad. That is why the highest-ranked manufacturers are foreign companies: NOVARTIS, SANOFI and BAYER. OTCPHARM, the only domestic manufacturer, was placed 14th in the top 20 players of Russia's pharma market at year-end 2014.

The distributor segment has two clear trends: cost reduction and business diversification. Virtually all distributors have diversified to some extent. In 2014, the leader in terms of sales was still the distributor KATREN, his share having increased up to 17.2%. The runner-up is the PROTEK distributor, with a share of 15.9%. The 2014 triumvirate is completed by the distributor SIA, which posted one of the largest gains in the ranking. The total market share of the top three distributors is 44.6%. In 2014 were announced two deals that will affect the balance of power in the distributor line-up: Oriola-KD came under the control of Aptechnaya Set 36.6. 2015 could see a merger between two distributors, SIA and R-PHARM.

2014 was a year of mergers and acquisitions for the pharma retail market that involved its heavy hitters, with the company A.V.E. group leading the parade. Over the year the pharmacy chain sold the regional assets of the 36.6 pharmacy chain, and in the latter part of the year it became the owner of the pharmacy STARY LEKAR and 03 Apteka. The top spot at year-end was claimed the RIGLA chain; the runner-up was the A.V.E. group chain (through a merger with 36.6); the rear is brought up by Imploziya. Their total share is as high as 8.8%.

The commercial drugs segment of the Russian market was worth 975 bln rbl. in 2014, up 11% on 2013. There were sold 4.2 bln units, down 4.5% on 2013.

Parapharmaceutical segment was worth 183 bln rbl. in 2014, up 8% on 2013. The segment's growth slowed down due to lower purchasing power.

State sector was up 10% in 2014. That is one of the most stable segments in the pharmaceutical market because its growth is fuelled by public money. At year-end 2014, medicines were purchased for benefit-entitled citizens worth 84.4 bln rbl. (the same figure as for 2013). At year-end 2014, the hospital procurement segment was worth 209.8 bln rbl., up 15% on 2013.

Medicinal drugs import into Russia in 2014 were 13.0 bln USD., down 13% on 2013.

According to a forecast from DSM Group, **the Russian pharmaceutical market will grow in 2015 by 15% in roubles to 1.3 trln rbl.**

1. Size of Russian pharmaceutical market

2014 was the year of Olympics in Sochi, integration of the Crimea and the sanctions of European Union and the USA against Russia. This country will live in the aftermath of all these events for many a year, experiencing: GDP growth slowdown as a result of economic downturn, reduction in consumer purchasing power as a result of lower standard of living, lower social spending, and the weakening of the rouble, culminating in price hikes.

During the crisis period, the pharmaceutical market is the most sustainable segment of the economy because its social component is fairly strong. In 2014, like before, the market's biggest growth driver was the interventions from the regulator.

The RF State Duma passed in 2014 40+ draft laws pertaining to the public health service. For example, the eagerly anticipated Federal Law to amend the Federal Law on Drug Commerce: it has provided an official definition for terms that could previously be interpreted in various ways, such as a biological drugs, interchangeable drugs etc., and introduced the term «orphan diseases». The latter part of 2014 saw the approval of a new List of Vital and Essential Drugs, List of medicinal drugs to treat patients under the 7 cost-intensive ICD diseases Programme, List of drugs for ONLS[providing (benefit-entitled citizens) with necessary medicinal products (PNMP)], as well as List of Required Drugs for organizations licensed for pharma activities

Amendments were made to the RF legislative acts in 2014 against commerce in fake, counterfeit, substandard and unregistered medicinal products and dietary supplements: a stricter punishment is provided for the manufacture and sale of forged drugs and Nutritional Supplements.

The regulator's interventions in the pharmaceutical market were also aimed at achieving a core objective of import substitution. The national programme called Pharmaceutical and Medical Industry Development for 2013-2020 sets for 2018 a 90% target for the share of List of Vital and Essential Drugs made in Russia. The programme provides for government assistance: more than 130 contracts are in place for the manufacture of List of Vital and Essential Drugs.

On the other hand, the RF Minpromtorg [Ministry for Industry and Trade] introduced in 2014 a proposal to limit public procurement of foreign-made drugs. The document proposes a ban on government procurement of drugs made abroad if bids have been submitted by two manufacturers from Russia or Customs Union members.

And there also remains in place the RF Ministry for Economic Development order of 25 of March 2014, No 155 On the criteria for admitting goods of foreign origin for the purposes of central and local government procurement, which sets price discounts of 15% for goods tendered by manufacturers from customs union members: Russia, Belarus and Kazakhstan. This order will remain in effect until the end of 2015 rather than 2014. The central question in this law, which remains outstanding, is a definition of domestic manufacturer. This question arose as a result of various degrees of local content of products made within the RF (fully integrated manufacturing, primary packaging, secondary packaging, quality control, manufacture of APIs). As a result, the RF Ministry for Industry and Trade is developing additional incentives for fully integrated manufacturers of medicinal drugs (including API manufacture). Minpromtorg will by 1 June 2015 draft a document to define process flow stages to use as a basis for a package of incentives for fully integrated manufacturers. Assistance will be available not only to Russian but also foreign pharm manufacturers, on condition that drugs manufacturing be based in Russia.

Among the anticipated events was the adoption of GMP standards by Russian manufacturers as of 1 January 2014. At the end of the day, absent a verification mechanism, a regulatory framework and international acceptance, it was decided to reschedule the deadline for the switchover to new standards to 1 January 2016. Note that according to the March 2015 figures, maximum 20 manufacturing facilities have been certified for Russian GMP standards, out of some 500 in Russia.

The RF President signed the Federal Law of 5 April 2013, No 44-FZ, On the contracting

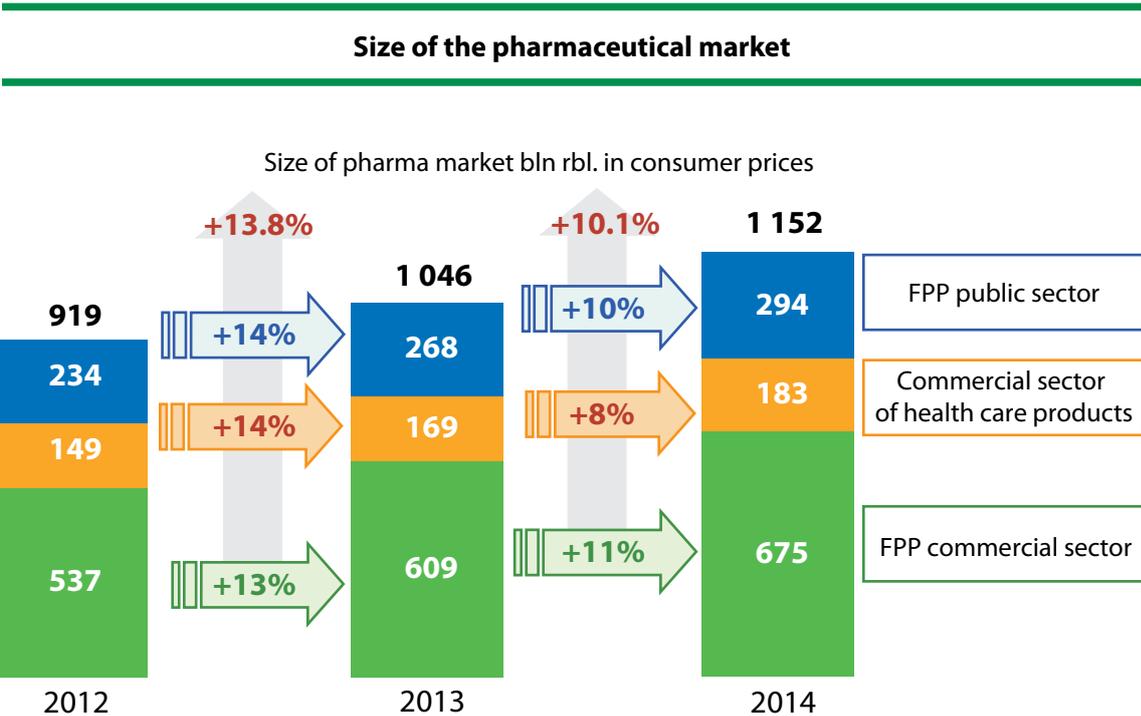
system in central and local government procurement (hereinafter referred to as the contracting system law). The Law came into force 1 January 2014. The federal contracting system puts in place a level playing field for all parties to the procurement process. First and most importantly: the FCS law bans the procurement of various drugs under a single contract (a single lot). It also set a cap on funds to be spent on multiple lots. The caps are to be set by the government. Moreover, the FCS determined it necessary to compile a list of medicinal drugs to be procured by their trade names, which is also subject to government approval.

This law has been in place for a year, with no major problems in the understanding of the regulatory framework other than in January-February 2014, when was a minor slump in public procurement of medicines by hospitals, but it was offset by high procurement volumes in December 2013. Thereafter, procurement of medicines by tendering proceeded normally.

Let us go back to figures. As regards the structure of the pharmaceutical market by financing source, the government’s market size (supported by public funds for medicine assistance and hospital procurement) is about 25.5%. As a result, consumer spending accounts for ¾ of the pharmaceutical market size.

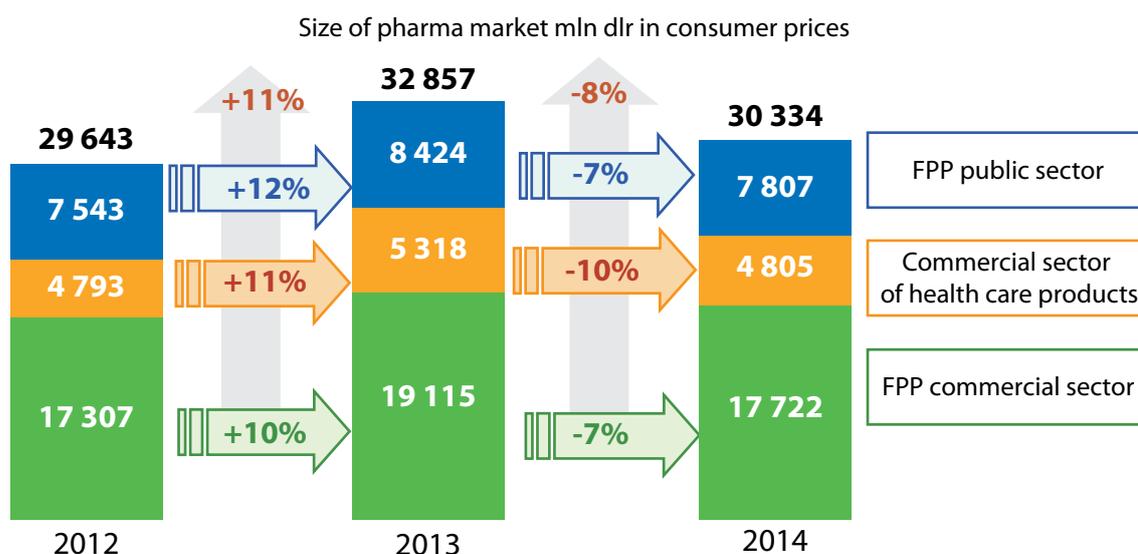
Diagrams 1-2 show the dynamics of the Size of Russian pharmaceutical market in 2012-2014 in retail prices.

Diagram 1



Source: DSM Group. ISO 9001:2008.

Pharmaceutical market capacity



Source: DSM Group. ISO 9001:2008.

The Russian pharmaceutical market size grew to 1,152 bln roubles in 2014, up 10.1% on the previous year. In 2014 the sales of medicines in physical terms were down 3% to 5.3 bln units, no decline in this figure having been observed since 2009.

Just like in previous years, in 2014 the commercial segment of medicinal drugs keeps in step with the market and with the public segment. The government's policy for public medicine assistance remains the same, and social expenditure is not down. At year-end 2014, the medicine assistance (MA) and hospital procurement segments were up 10% in rouble terms.

The market's main growth driver is inflation on drugs. It is on a par with the consumer price index of Goskomstat [Federal Public Statistics Service], and at year-end 2014 the rise in the prices for medicines was about 12.7% (much higher than in previous years). In terms of units sold, the Medicinal drugs commercial segment exhibits a downward trend. Such dynamics is due to a decline in the sales of drugs priced up to 50 roubles (50% of market losses in physical terms is in this segment). This factor has several causes: on the one hand, the consumer is more particular about the quality of medicines and prefers more expensive drugs. On the other hand, inflation in this segment is at its highest: nearly 28%. This results in the consumer not stocking up on staple cheap medicines, as well as causing a change in the market structure.

Size of Russian pharmaceutical market compared to other countries

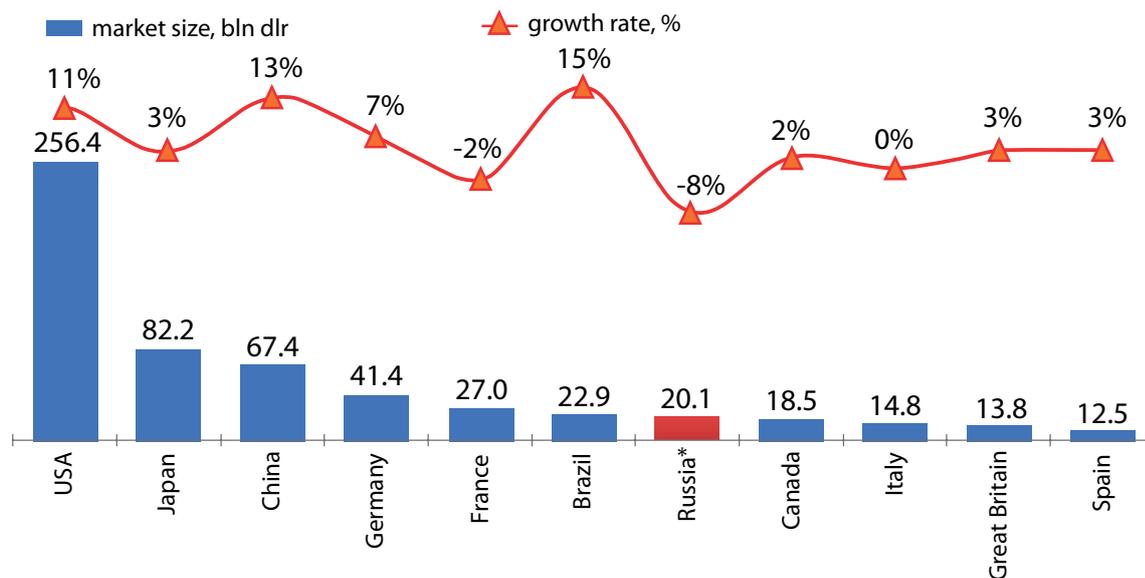
According to public domain sources, the global pharmaceutical market was worth 1060 bln USD in 2014. Compared to 2013, it was up about 7% in money terms.

Traditionally, the fastest-growing markets are Latin American economies and China.

At year-end 2014, Russia is 7th among major global pharmaceutical markets, but for all that, the market was down 8% in USD terms because of the weaker rouble. This trend continuing in 2015, Russia can slide 1-2 spots down.

The largest market is in the USA, with just retail sales of medicinal drugs generating 256.4 billion USD. European pharmaceutical markets (top 5) total 109.5 billion USD (10% of the global market), having increased about 3% in 2014.

The size of the drugs retail market in Russia and elsewhere in the world in 2014



Source: public domain sources and DSM Group. ISO 9001:2008

Note: drugs retail market = Medicinal drugs commercial segment + DLO [Drug Reimbursement Program]

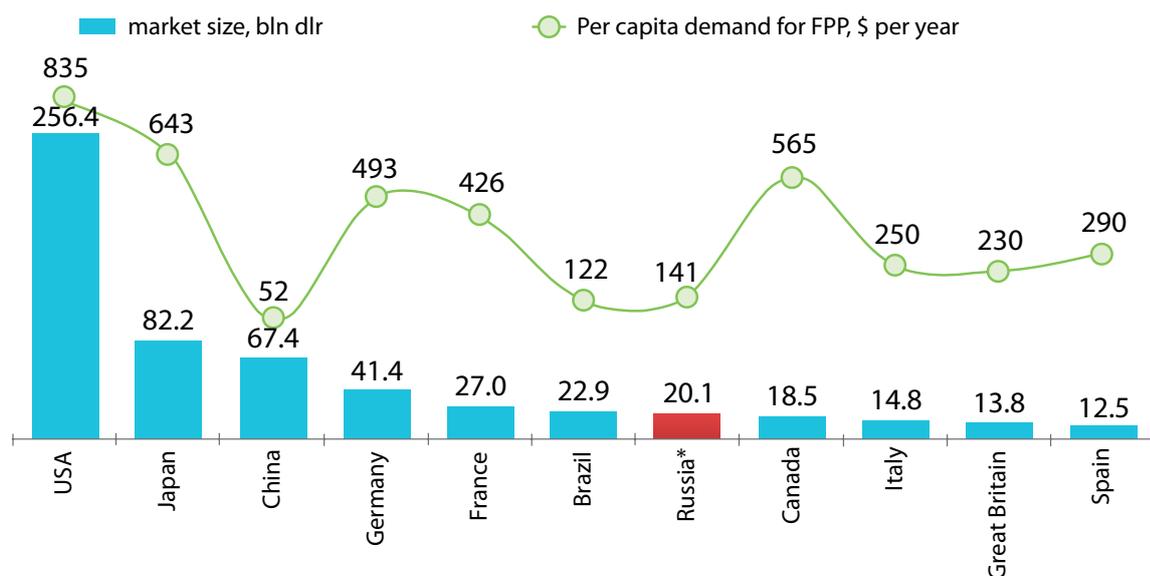
Russia, 2014 figures

Other countries: July 2013- June 2014

Russia's average consumption of medicinal drugs is still a third and a fifth of that in Europe and the US respectively. Russia's figure (\$141) for per capita consumption of medicinal drugs is higher than only that of Brazil and China at 122 and 52 USD respectively.

Diagram 4

Drugs consumption in Russia and elsewhere in the world in 2014



Source: public domain sources and DSM Group. ISO 9001:2008

Note: drugs retail market = Medicinal drugs commercial segment + DLO

Russia, 2014 figures

Other countries: July 2013- June 2014

2. Medicinal drugs commercial segment

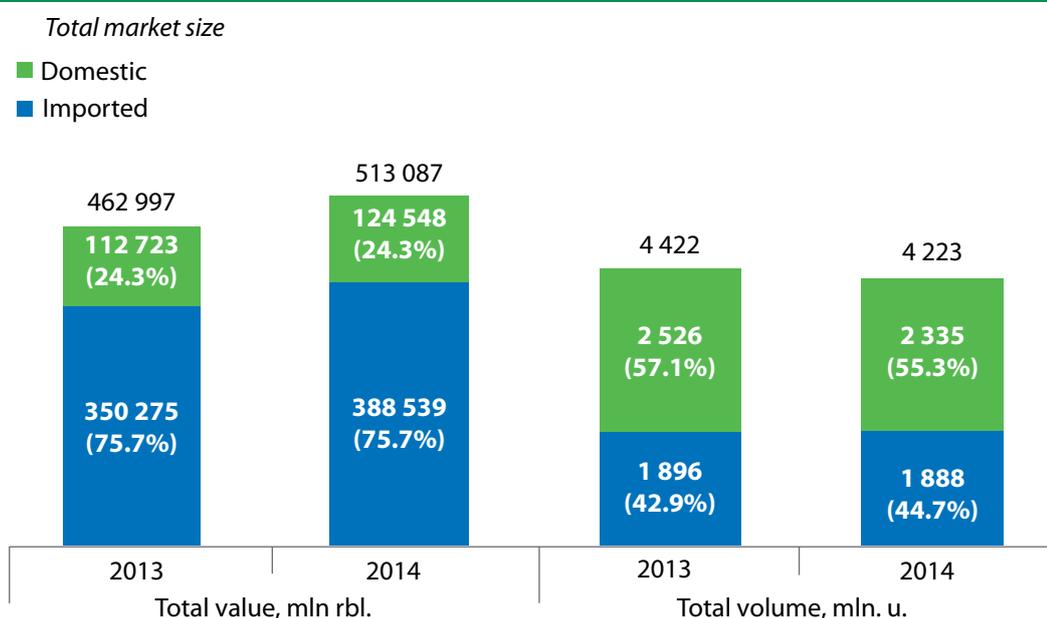
The medicinal drugs commercial market in 2014 was worth 675 bln rbl. in consumer prices or 513 bln rbl. in pharmacy cost prices (Fig. 5), up 11% on 2013. There were sold 4.2 bln units, down 4.5% on 2013.

1. Balance between the sales of imported and domestic MDs in the retail commercial market

The structure of medicinal drugs commercial market in terms of sales of domestic and foreign-made drugs is shown in Figure 5.

Figure 5

Balance between the sales of imported and domestic drugs in the retail commercial market of Russia



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008

Note: the sales are in pharmacy cost prices incl. of VAT.

In money terms, domestic drugs traditionally account for about a quarter of the Russian medicinal drugs commercial market. In 2014 the share of domestic medicines was 24.3%. At the same time, domestic drugs dominate pharmacy sales in physical terms at 55.3%. Note that the share of domestic medicines in terms of units sold was down nearly 2% in 2014. This was due to a reduction in the sales of cheap drugs such as CITRAMONUM, NAPHTHYZIN, ACTIVATED COAL, ACETYLSALICYLIC ACID etc., priced up to 15-20 roubles.

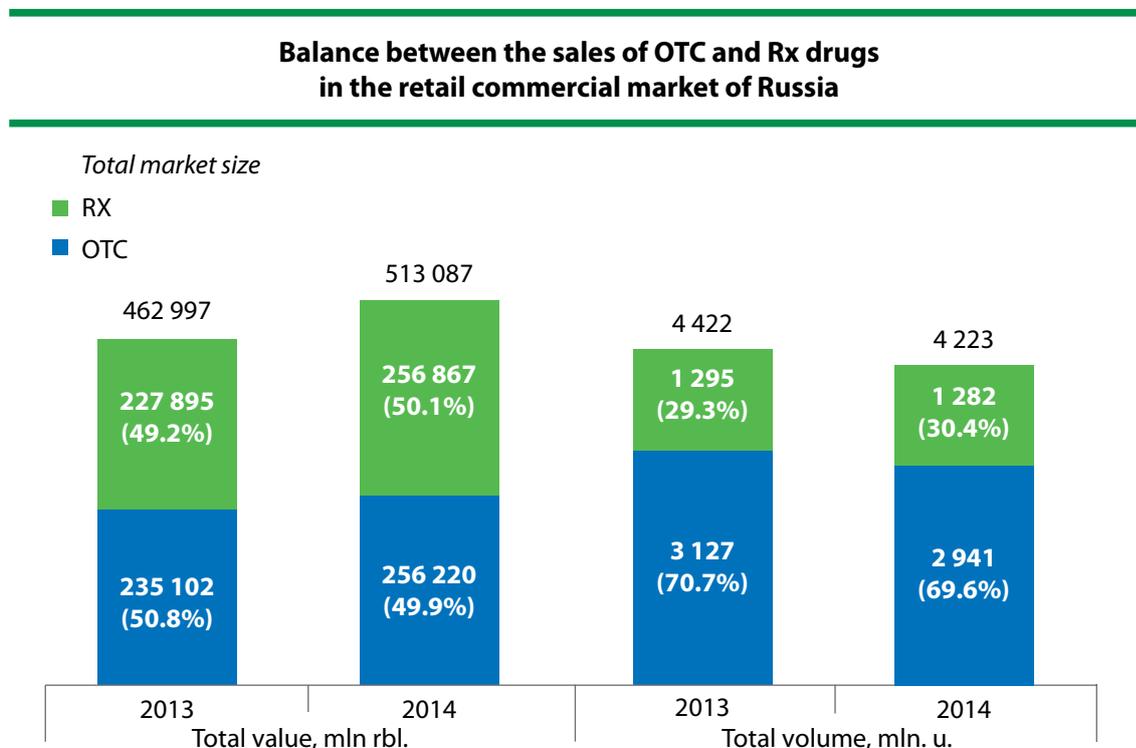
In 2014, the increase in the sales of imported drugs matched the increase in the sales of domestic medicines in terms of total worth: +11% for foreign drugs, +10% for Russian drugs. In physical terms, the sales of Russian- and foreign-made medicines were down 7.6% and 0.5% respectively.

The average price of domestic drugs per unit in 2014 was 53 rbl., which is approximately 4 times less than that of foreign-made medicinal drugs. In 2014, the average price per foreign-made unit was 206 rbl.

¹ Hereinafter in the section «FPP commercial segment», all sales and prices are in the pharmacy cost prices incl. of VAT.

2. Balance between the sales of prescription and OTC drugs in the retail commercial market

The balance between the pharmacy sales of prescription and OTC drugs is shown in Figure 6.
Figure 6



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008

Note: the sales are in pharmacy cost prices incl. of VAT.

Note: The shares of Rx and OTC drugs were calculated using the official classification as per the List of Over-the-Counter Drugs. The fact that pharmacies quite often sell prescription drugs over the counter was disregarded.

At year-end 2014, the segment of drugs retail commercial market saw the sales of both prescription and OTC drugs increase in money terms. Normally, the sales of prescription medicines rise at a higher pace than those of OTC drugs; 2014 was no exception in this regard: there was a 12.7% increase in the sales of Rx drugs in roubles, whereas the sales of OTC medicines were up 8.9%. In physical terms, the trend was similar: -6.0% and -1% were the increases in the sales of OTC and Rx drugs respectively. The share of prescription drugs was 50.1% in roubles; in physical terms, the bulk is OTC drugs (69.6%).

Note that the average price of Rx drugs in 2014 was 200 rbl., whereas OTC drugs were on the average priced 2.5 times less than that at 87 rbl. per unit.

3. Drugs sales mix in the retail commercial market by ATC group

The balance between the pharmacy sales of drugs by ATC level 1 group in Russia is given in table 1.

Drugs sales mix in Russia's retail commercial market by ATC group

ATC level 1 group	Total worth, mln rbl.	Group's share of total worth, %	Physical quantity, mln. u.	Group's share of physical quantity, %
A: Alimentary tract and metabolism	99,856	19.5%	737	17.4%
R: Drugs for the treatment of respiratory diseases	65,625	12.8%	622	14.7%
C: Drugs for the treatment of cardiovascular diseases	64,721	12.6%	455	10.8%
N: Drugs for the treatment of nervous disorders	59,135	11.5%	753	17.8%
M: Drugs for the treatment of musculoskeletal disorders	40,911	8.0%	290	6.9%
J: Antibacterial drugs for systemic use	40,350	7.9%	281	6.7%
G: Drugs for the treatment of urogenital diseases and sex hormones	37,447	7.3%	82	2.0%
D: Drugs for the treatment of skin diseases	31,825	6.2%	445	10.6%
B: Drugs affecting hematogenesis and blood	19,438	3.2%	122	2.9%
L: Antineoplastic and immunomodulating agents	17,430	3.4%	60	1.4%
[~] drugs without an ATC classification	16,053	3.1%	210	5.0%
S: Drugs for the treatment of sensory processing disorders	13,383	2.6%	103	2.4%
V: Other drugs	2,902	0.6%	25	0.6%
H: Hormonal drugs for systemic use (excluding sex hormones)	2,520	0.5%	18	0.4%
P: Antiparasitic drugs, insecticides and repellents	1,491	0.3%	19	0.5%

Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008

Note: the sales are in pharmacy cost prices incl. of VAT.

Note. [~] drugs without an ATC classification (homoeopathic drugs, drugs of plant/animal origin, APIs etc.)

The ranking of ATC groups by total worth changed a little on 2013 (the changes mostly affect improvements in the positions of ATC groups [M], Drugs for the treatment of musculoskeletal disorders, and [B], Drugs affecting hematogenesis and blood). In 2014, the leading position was kept, just like before, by drugs from ATC group [A], Alimentary tract and metabolism (19.5%). Compared with 2013, this group shows a 12% increase in sales in money terms. In terms of units sold, this segment posted a 6.5% reduction in sales. This warrants the conclusion that the observed growth of rouble sales in this group is due to a rise in drugs prices.

Nearly 16% of the value sales in ATC group [A] is accounted for by subgroup [A07], Antidiarrheals. The first place in terms of sales in group [A07] went to the LINEX brand with a rouble share of 19%. ENTEROSGEL and BIFIFORM occupy 2nd and 3rd places in the price ranking of antidiarrheals with shares of 9.7% and 9.6% respectively. Leading in terms of units sold is a budget domestic drug, UGOL AKTIVIROVANNY [ACTIVATED COAL] (nearly half the sales of [A07]).

First place among group [A] subgroups in physical terms is also claimed by antidiarrheals ([A07]) – 23% of the sales of the entire group.

Group [M], Drugs for the treatment of musculoskeletal disorders, moved from 6th to 5th place in 2014.

The bulk of the value sales in group [M] is accounted for by subgroup [M01], Anti-inflammatory and antirheumatic products (58% of the sales in group [M]). The subgroup leaders are two drugs, NUROFEN and NISE, whose total share is about a quarter of the value sales for 2014.

Another ATC group drew attention to itself last year by improving its position, having moved from 10th to 9th spot - group [B], Drugs affecting hematogenesis and blood. This was partly the result of an over 20% increase in the sales of ATC group over the year.

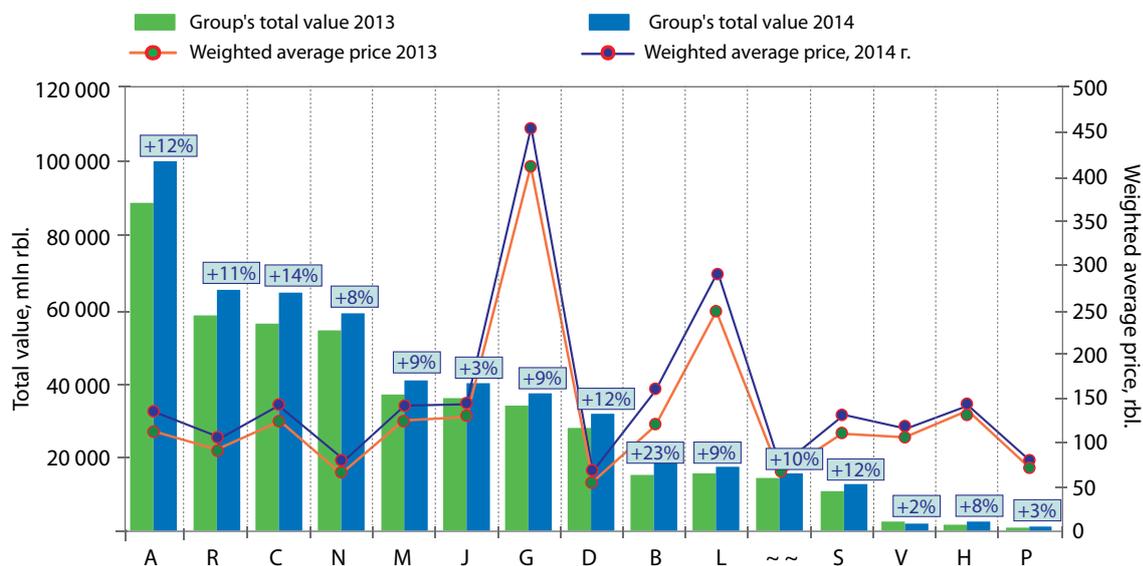
In group [B], the leader is subgroup [B01], Antithrombotic agents, accounting for 55% of the value sales. In this context, the bulk of the sales in the subgroup is accounted for by the brands CARDIOMAGNYL and PLAVIX. The pharmacy sales of CARDIOMAGNYL went up 26.8% over the year; a less impressive growth (+8% on the value sales in 2013) was shown by PLAVIX.

The structure of medicinal drugs commercial market by ATC group remains fairly stable year on year. The increase in the size and average price of unit in ATC groups is shown in Figure 7.

At year-end 2014, all ATC groups without exception posted higher value sales. The maximum increase in money terms, 23%, was recorded for drugs in group [B], Drugs affecting hematogenesis and blood (fuelled by higher sales of brands such as CARDIOMAGNYL, XARELTO, PRADAXA, etc.). In physical terms, the largest increase in pharmacy sales was recorded among drugs group [H], Hormonal drugs for systemic use (excluding sex hormones): 4%.

Figure 7

Structure of medicinal drugs commercial market in 2013-2014



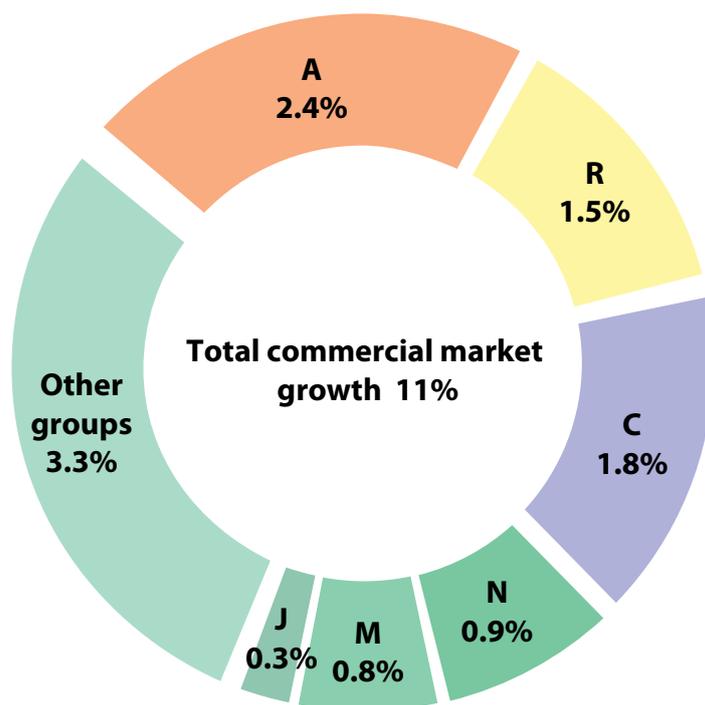
Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008

Note: the sales are in pharmacy cost prices incl. of VAT.

The greatest price of weighted average unit at year-end 2014 was 454 rbl. for drugs in group [G], Drugs for the treatment of urogenital diseases and sex hormones. Such a high price is due to the fact that the per unit retail price of certain MD in this group can be as high as 9 thou. rbl. or higher. A high price of a weighted average unit is also observed for the groups [L], Antineoplastic and immunomodulating agents, about 289 rbl.; [B], Drugs affecting hematogenesis and blood, about 160 rbl.

The contribution of various ATC groups to the total growth of medicinal drugs commercial market was assessed using a weighted increase – a parameter that factors in the share of an ATC group, multiplied by its growth rate (Fig. 8).

Weighted increase in drugs retail commercial market by ATC group



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

The largest contribution to the increase in the total worth of the medicinal drugs commercial market in 2014 was made by the groups of drugs for the treatment of gastrointestinal diseases [A], respiratory [R] and cardiovascular therapy [C], which totaled 5.6% or about 50% of the total market growth.

4. Drugs manufacturers in the retail commercial market

Table 2 lists the top 20 manufacturers with the greatest sales in the commercial market of Russia in 2014.

Table 2

Top 20 drugs manufacturers in terms of pharmacy sales in the retail commercial market of Russia at year-end 2014

2014 ranking	Change	Manufacturer	Total value, mln rbl. 2014	Total value increase	Share
1	-	NOVARTIS	36,714	7.6%	7.2%
2	-	SANOFI	28,031	13.1%	5.5%
3	-	BAYER	24,947	13.8%	4.9%
4	-	SERVIER	18,513	10.4%	3.6%
5	-	TAKEDA	16,672	13.7%	3.2%
6	-	TEVA	15,543	7.4%	3.0%
7	1	BERLIN-CHEMIE	14,723	5.8%	2.9%
8	-1	OTISIPHARM	14,402	3.2%	2.8%
9	-	ABBOTT	12,714	11.2%	2.5%
10	-	GEDEON RICHTER	12,385	8.9%	2.4%
11	1	KRKA	10,663	11.2%	2.1%
12	-1	PFIZER	10,518	5.1%	2.0%
13	-	STADA	10,194	8.4%	2.0%
14	2	JOHNSON & JOHNSON	10,078	19.1%	2.0%
15	1	ASTELLAS	9,445	6.1%	1.8%
16	-1	BOEHRINGER INGELHEIM	9,129	7.6%	1.8%
17	3	ACTAVIS	8,768	28.9%	1.7%
18	4	VALENTA	7,825	27.7%	1.5%
19	-	PHARMSTANDART	7,800	10.5%	1.5%
20	-3	DR.REDDY'S	7,480	4.3%	1.5%

Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Note: the sales are in pharmacy cost prices incl. of VAT.

In 2014, the Russian pharmaceutical market had over 1000 players.

In aggregate, the top 20 manufacturers account for 55.8% of the drugs value sales. Compared with 2013, the total share of the top twenty is slightly down.

NOVARTIS has kept its lead in the ranking with a rouble share of 7.2%. The company NOVARTIS has a rather large portfolio (over 180 drugs distributed in the commercial market). The company's bestseller is the drug LINEX: its share of the company's sales at year-end 2014 was 8.1% in money terms, up 1% on 2013. The greatest increase in sales was recorded for TORNETIS drugs (sales were up more than five-fold), CALCIUM SANDOZ (sales up more than three-fold), MONTELAR (also a many-fold increase in pharmacy sales) etc. The bestsellers in physical terms are household names such as THERAFLU, ACC and OTRIVINE. These three items account for nearly 23% of units sold, which is slightly more than the drugs' total share of the company's value sales.

The runner-up, SANOFI, was 1.7% behind the leader by rouble share. The company's five key brands, ESSENTIALE, NO-SPA, LOZAP, MAGNE and PLAVIX, account for some 50% of the company's pharmacy sales, and ESSENTIALE and NO-SPA make the top 20 brands every year.

In third place, just like in 2013, is BAYER with a share of 4.9%. The company's sales growth rate at year-end 2014 was positive, +13.8%; such steady growth was facilitated by higher sales of brands such as BEPANTHEN (up 35% on 2013 sales), YAZ (up 26%), and SUPRADYN (sales up two-fold on 2013).

At year-end 2014, improvements were made in their positions in the Top 20 manufacturers of the Russian commercial market for medicines by the following companies: BERLIN-CHEMIE (the pharmacy sales of the company's products were up 5.8% thanks to a steady rise in the demand for drugs such as ESPUMISAN, NIMESIL, NEBILET etc.), KRKA (which added a little over 11% to its 2013 sales due to higher sales of a number of brands, specifically LORISTA, ATORIS and NOLPAZA), and JOHNSON & JOHNSON, which rose two spots in the ranking. Also, the company ASTELLAS moved from 16th to 15th place, which was due to the sales of the company's medicines rising by more than 6% (the growth drivers were drugs such as DE-NOL (+16%), OMNIC (+7%), and SUPRAX (+31%).

ACTAVIS moved from 20th place in 2013 to 17th in 2014, posting the top twenty's highest growth in pharmacy sales: 28.9%. Russian pharmacies sell some 100 medicinal brands of the company, with the highest increase in demand recorded, specifically, for TROXEVASIN, SPASMALGON, ALMAGEL, VALZ etc.

It is also necessary to note a national champion, VALENTA. In 2014 the company claimed 18th spot in the ranking, having increased the sales of its drugs at the country's pharmacies by nearly 28%. This was partly the result of rising demand for medicines such as INGAVIRIN (up 54% on 2013 sales), GRAMMIDIN (+34%) and PHENOTROPIL (+17%).

5. Retail commercial market drugs

Table 3 lists the top 20 brands with the greatest sales in the commercial market of Russia in 2014.

Table 3

Top 20 brands by value sales in the commercial market of Russia in 2013-2014					
2014 ranking	Change	Brand	Total value, mln rbl. 2014	Total value increase	Share
1	-	ESSENTIALE	5,312	17.7%	1.0%
2	1	CONCOR	4,095	12.8%	0.8%
3	1	ACTOVEGIN	3,941	12.5%	0.8%
4	1	KAGOCEL	3,838	16.8%	0.7%
5	2	NUROFEN	3,565	19.8%	0.7%
6	4	ALFLUTOP	3,251	12.7%	0.6%
7	22	INGAVIRIN	3,033	54.2%	0.6%
8	-	LINEX	2,963	1.3%	0.6%
9	-3	THERAFLEX	2,897	-9.3%	0.6%
10	3	EXODERIL	2,870	9.7%	0.6%
11	1	NISE	2,856	7.5%	0.6%
12	-1	THERAFLU	2,847	3.9%	0.6%
13	-11	ARBIDOL	2,819	-23.2%	0.5%
14	-	LOZAP	2,787	15.0%	0.5%
15	-	PENTALGIN	2,697	12.6%	0.5%
16	7	CARDIOMAGNIL	2,672	26.8%	0.5%
17	-1	DETRALEX	2,616	10.7%	0.5%
18	-	MEXIDOLUM	2,602	13.2%	0.5%
19	-10	VIAGRA	2,568	-11.7%	0.5%
20	-3	LAZOLVAN	2,506	8.6%	0.5%

Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Note: the sales are in pharmacy cost prices incl. of VAT.

In aggregate, the top 20 brands account for 12.2% of the total value of the Medicinal drugs commercial segment. The top three best sellers has been a little shuffled: ESSENTIALE has kept its lead (market share 1.0%), CONCOR rose from 3rd to 2nd spot, and ACTOVEGIN, which was 4th in the previous year, settled into 3rd place in 2014.

Note that drugs in one of the fastest-growing segments of the commercial market, cold-relief medicines, exhibited a variety of trends in 2014. For example, the increase in the demand for KAGOCEL and INGAVIRIN outpaced the market, which enabled the brands to improve their rankings ((KAGOCEL sales went up 16.8% over the year; pharmacy sales of INGAVIRIN were up by more than 50%). The sales of a number of drugs (LASOLVAN, THERAFLU) also rose, but at a slower pace relative to market average. The sales of past years' best-selling drug, ARBIDOL, were down 23.2% on 2013 sales, which caused a slide of 11 spots down in the ranking.

The biggest gain in the ranking in 2014 was made by four drugs: the already mentioned INGAVIRIN (up 22 notches), CARDIOMAGNYL (up 7 notches), ALFLUTOP (up 4 notches), and EXODERIL, which rose from 13th to 10th spot.

In terms of units sold, the ranking is headed by cheap drugs: CITRAMON, ANTISEPTIC BAND-AID and ACTIVATED COAL. Among the drugs in the top 20 by value sales, only NUROFEN made the top 20 in physical terms, having been ranked 13th. Note that nearly all of the top 20 drugs in physical terms are so-called endemic medicinal drugs, i.e. those that are only sold in Russia and elsewhere in the former USSR. And in the rouble ranking, they are positioned below the 100th spot. The weighted average retail price of the top 20 is about 20 roubles.

6. List of Vital and Essential Drugs

With a view to implementing government regulation of prices for certain drugs, the Government of the Russian Federation has been annually approving List of Vital and Essential Drugs since 2010.

List of Vital and Essential Drugs, as defined by the World Health Organization (WHO) are «those drugs that satisfy the health care needs of the majority of the population; they should therefore be available at all times in adequate amounts and in appropriate dosage forms, at a price the community can afford.» Note that the last criterion (affordability) was not, until recently, a priority for the list.

In 2014, Russia used the 2012 List of Vital and Essential Drugs, approved by RF Government Order; it was kept in place for two more years. The latter part of the year saw an indication that the national pharmaceutical industry and the public health service would receive a new List of Vital and Essential Drugs in 2015.

The development of the list was prefaced by the approval of Rules for compiling lists of medications and required drugs. The Rules govern the compilation of the following four lists (or three lists and the required drugs): **List of Vital and Essential Drugs**; medicinal drugs designed for the treatment of **Seven cost-intensive ICD diseases**; medicinal drugs to supply to eligible beneficiaries, including by **resolution of medical commissions of medical organizations**; **the required medicinal drugs** needed for the provision of medical assistance.

All of the above lists are to be generated using international nonproprietary names (INN); only where such is unavailable can a grouping or chemical ones be used. The Rules list the criteria to be used to compile a given list from these four. According to the Rules, the List of Vital and Essential Drugs must be generated annually; the others, once every three years or more frequently. This responsibility is given to a dedicated commission of Minzdrav [Public Health Ministry]. Pharmaceutical names can be proposed not only by pharmaceutical industry insiders, but also by non-governmental organizations active in the area of public health, commerce in medicines and defence of rights of citizens.

Therefore, the new List of Vital and Essential Drugs came into force 1 March 2015.

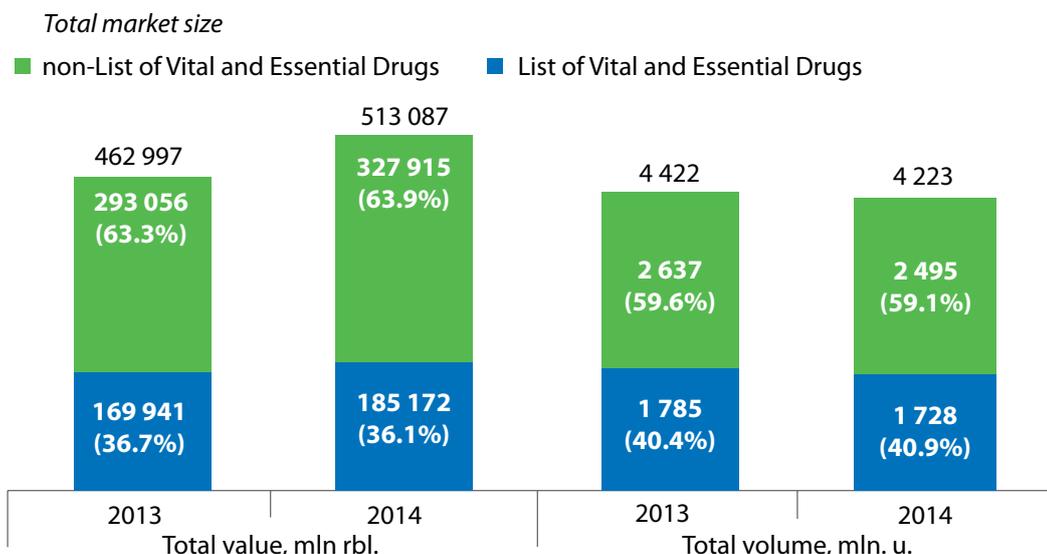
According to Minzdrav's figures, the new List of Vital and Essential Drugs includes 608 drugs, 67% of which are made in Russia by national or foreign manufacturers. This list was for the first time formed based on radically new principles – the principles of assessing the body of evidence of drug effectiveness and comparing drugs and their closest analogues in terms of pharmacoeconomic effectiveness.

The updated list had 52 more medicinal products.

At year-end 2014, pharmacy sales were recorded to feature 535 INNs from the List of Vital and Essential Drugs (which corresponds to 1899 brands). Sales of List of Vital and Essential Drugs reached 158 bln roubles or 1,531 mln units (Fig. 9).

Note that in money terms the sales of List of Vital and Essential Drugs were up almost as much as those of unlisted drugs (List of Vital and Essential Drugs 9.0%, non-List of Vital and Essential Drugs 11.9%). In physical terms, the picture is somewhat different: in terms of units sold, List of Vital and Essential Drugs were down 3.2%, whereas the sales of unlisted drugs were down 5.4%.

Balance between sales of List of Vital and Essential Drugs and non - List of Vital and Essential Drugs



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Note: the sales are in pharmacy cost prices incl. of VAT.

As in the market at large, the share of domestic drugs is a little larger in physical terms (52.5%); in money terms, their share is just 25.0%.

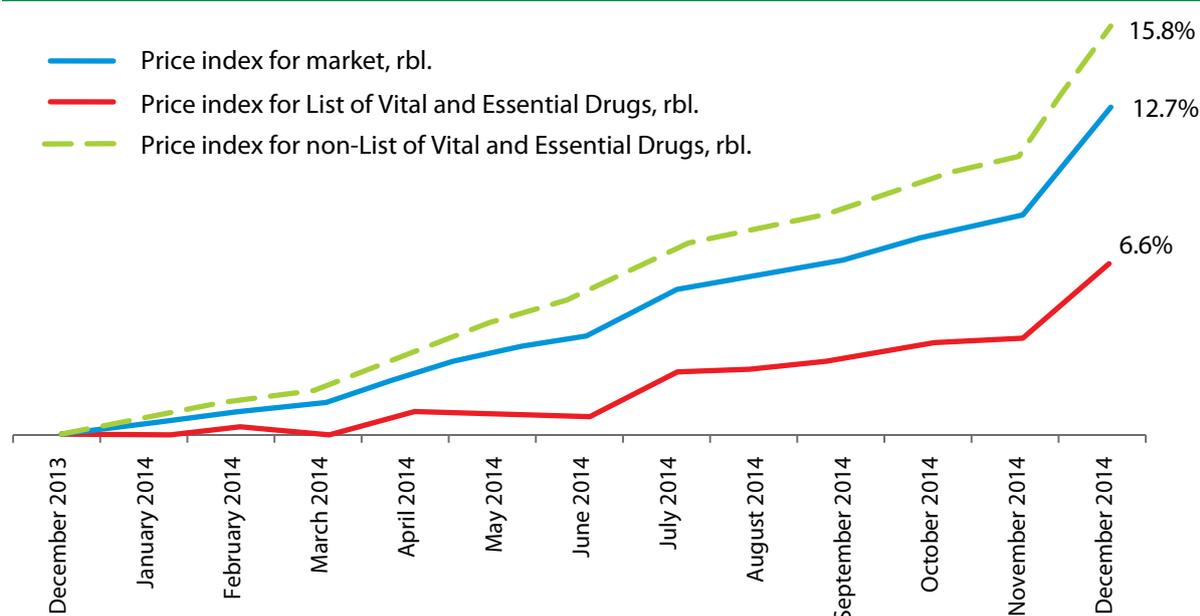
The weighted average price of List of Vital and Essential Drugs was 107.1 rbl. at year-end 2014, with the per unit price of domestic drugs being about 51 rbl., and a foreign-made one more than 3 times higher (169 rbl.).

The average price of List of Vital and Essential Drugs did not exceed the weighted average price of other drugs. This indicates that in the List of Vital and Essential Drugs segment a shift in sales [towards] higher end is less clear than across the board in the market, which is due to heavy regulation of prices for List of Vital and Essential Drugs.

Figure 10 shows a price index for different groups of medicines.

Figure 10

Price index dynamics in the commercial market in 2014



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Over the 12 months of 2014, List of Vital and Essential Drugs prices went up 6.6%. The price of non-List of Vital and Essential Drugs was up 15.8% on December 2013. Most of the price rise occurred in the 2nd half of 2014 – the price index went 5.9% up over the period.

A ranking of drugs sales by INN on the List of Vital and Essential Drugs is shown in Table 4. The List of Vital and Essential Drugs INN ranking is headed by XYLOMETAZOLINE. Note that in 2013 the leader was also XYLOMETAZOLINE, the line-up at the top is largely the same because the sales of most INN medicines were up. In the final analysis, the sales of all INNs [in] the 2014 List of Vital and Essential Drugs ranking were up on the previous year, except for AZITHROMYCIN, UMIFENOVIR, ENALAPRIL and DROTAVERINE: the sales of drugs of each of INNs were down over the year by 3%, 21%, 3% and 1% respectively.

Table 4

Ranking of List of Vital and Essential Drugs INN sales				
	INN	% of the List of Vital and Essential Drugs sales rbl.	Total value, mln rbl.	Total value, mln rbl. Leader among brands within INN
1	XYLOMETHAZOLINE	4.8%	8,701	TYZIN
2	PANCREATIN	2.8%	5,010	KREON
3	BISOPROLOL	2.8%	4,982	CONCOR
4	IBUPROFEN	2.5%	4,475	NUROFEN
5	AMOXICILLIN+CLAVULANIC ACID	1.8%	3,187	AMOKSIKLAV
6	AZITHROMYCIN	1.7%	3,150	SUMAMED
7	IMIDAZOLILETANAMID PENTANEDIOIC ACID	1.7%	3,032	INGAVIRIN
8	ATORVASTATIN	1.6%	2,985	LIPRIMAR
9	UMIFENOVIR	1.6%	2,904	ARBIDOL
10	ETHYLMETHYLHYDROXYPYRIDINE SUCCINATE	1.6%	2,896	MEXIDOLUM
11	INTERFERON ALFA-2B	1.6%	2,860	VIFERON
12	AMBROXOL	1.5%	2,716	LAZOLVAN
13	FLUCONAZOLE	1.5%	2,655	FLUCOSTAT
14	ADEMETHIONINE	1.4%	2,508	HEPTRAL
15	ENALAPRIL	1.3%	2,409	ENALAPRIL
16	OMEPRAZOLE	1.3%	2,405	OMEZ
17	LOSARTAN	1.3%	2,404	LOZAP
18	DROTAVERINE	1.3%	2,360	NO-SPA
19	CETIRIZINE	1.3%	2,289	ZYRTEC
20	PREGABALIN	1.2%	2,215	LYRICA

Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

The highest increase in the weighted average price for IBUPROFEN INN (+15%) is due to the roll-out of NUROFEN new items. In 2014 pharmacies started selling tablets NUROFEN EXPRESS LADY and NUROFEN EXPRESS FORTE; also, they offered new oral suspensions for children of the same brand, with the price of all listed items exceeding 100 rbl./u., whereas the average price of medicines of this INN is short of 90 rbl./u.

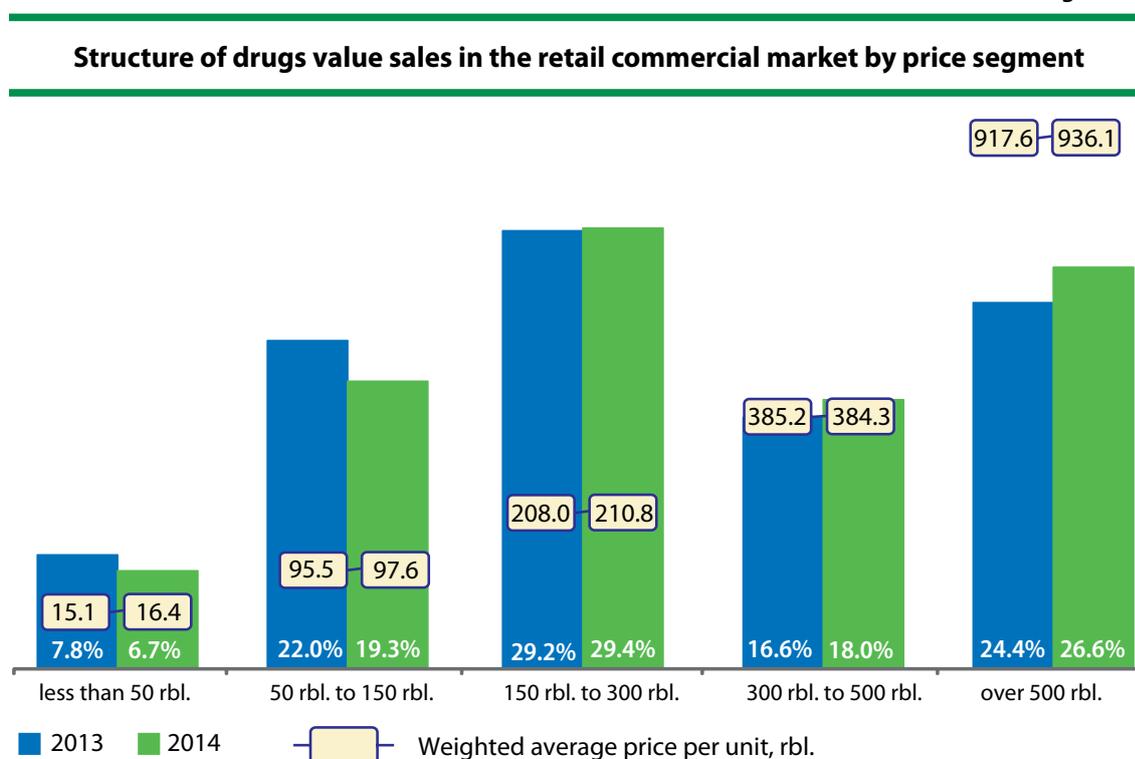
7. Price segmentation of drugs in the retail commercial market

The average per unit price of drugs in the commercial market in 2014 rose by 16% to reach 121.5 rbl.

Let us break down this figure.

Figure 11 shows the structure of commercial market and the average per unit price-by-price segment in 2013-2014.

Figure 11



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Note: the sales are in pharmacy cost prices incl. of VAT.

As is evident from figure 9, the share of drugs priced below 50 roubles dropped 1.1% over the last year; these drugs' share of the List of Vital and Essential Drugs was down 1.0%. This trend has been typical of the domestic pharma market in the last few years. Demand is shifting towards more expensive or more effective medicinal drugs. E.g., the sales of popular drugs such as ANTISEPTIC BAND-AID, ACTIVATED COAL, CITRAMON and ACETYLSALICYLIC ACID were down 54 million units taken together.

In this context, if the consumer basket is fixed at the 2013 level (in other words, irrespective of what price a drug has in 2014, it will fall in the same segment where it was at year-end 2013), then the share of drugs priced less than 50 rbl. will be 7.5% in 2014, i.e. 0.3% down on 2013. In some segments, the changes will be more substantial: a 1.0% decline will be seen in the share of the segment with medicines priced between 50 and 150 rbl./u., and the proportion of the high-end drugs segment (with prices above 500 rbl./u.) will be up 1.3%. This warrants the conclusion that market shares by price segment change not only due to price rise and movement of a drug from one price group to another, but also due to the consumer's focus on more expensive drugs.

The segment of drugs priced up to 50 rbl. remains the largest in physical terms at 50%.

The fastest-growing price group both in value (+20.9%) and physical terms (+18.5%) is the group of drugs priced upwards of 500 roubles; its share is up 2.2% to 26.6% in roubles. In terms of units sold, the share of this group is minimal – 3.5%.

The year-end 2014 largest group of drugs priced between 150 rbl. and 300 rbl. claimed 29.4% of the volume in money terms. The sales gain in the group was +11.4% in 2014 on 2013.

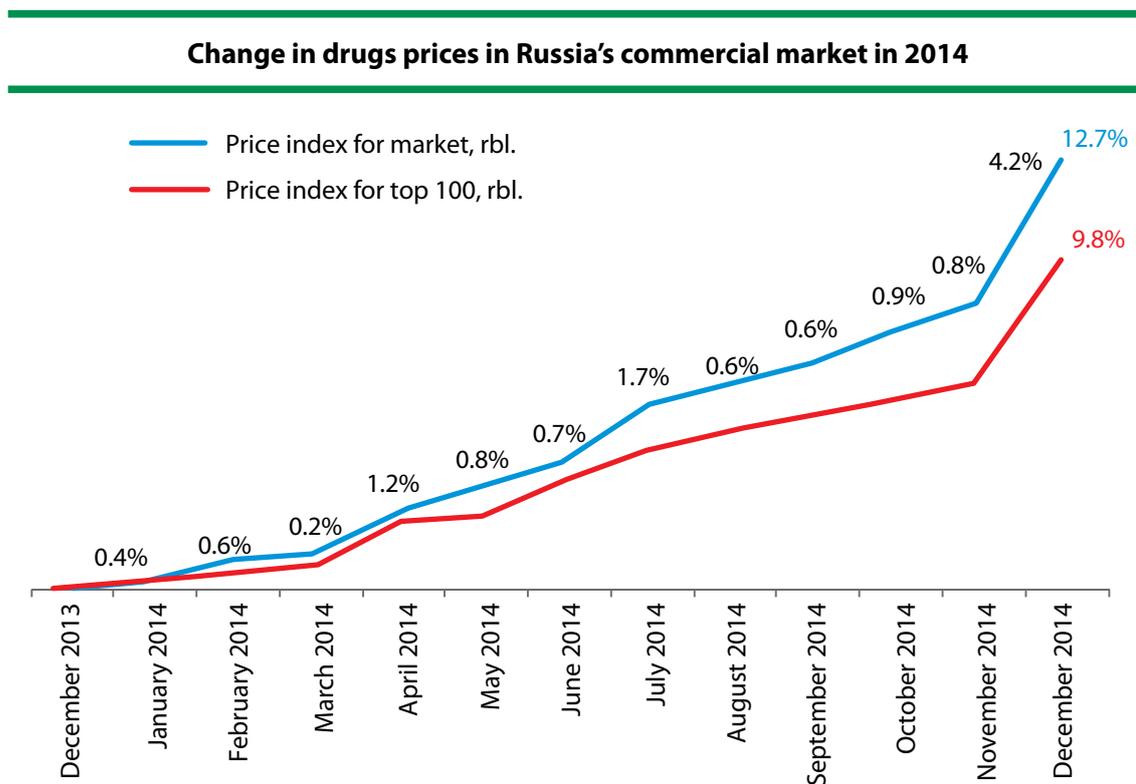
8. Price index of drugs in the retail commercial market

For an unbiased assessment of the change in the prices for drugs in the market's retail commercial segment, a price index was used, having been calculated based on a fixed list of finished pharmaceutical products.

As in previous years, the main driver of market growth was the rise in the price index of drugs. In 2014, inflation on medicines (12.7%) was higher than the consumer price index of Goskomstat (11.4%). The level of prices for drugs was not rising smoothly, with a growth spurt occurring in the latter six months. The primary cause of the rise in the prices for medicines was a change in the rate of exchange due to the economic sanctions from EU members and North America, as well as to the drop in oil prices on the world market.

The most popular drugs were slightly less affected by the price rise: the price index of the top 100 trade names by 2014 sales was 9.8% (Fig. 12).

Figure 12



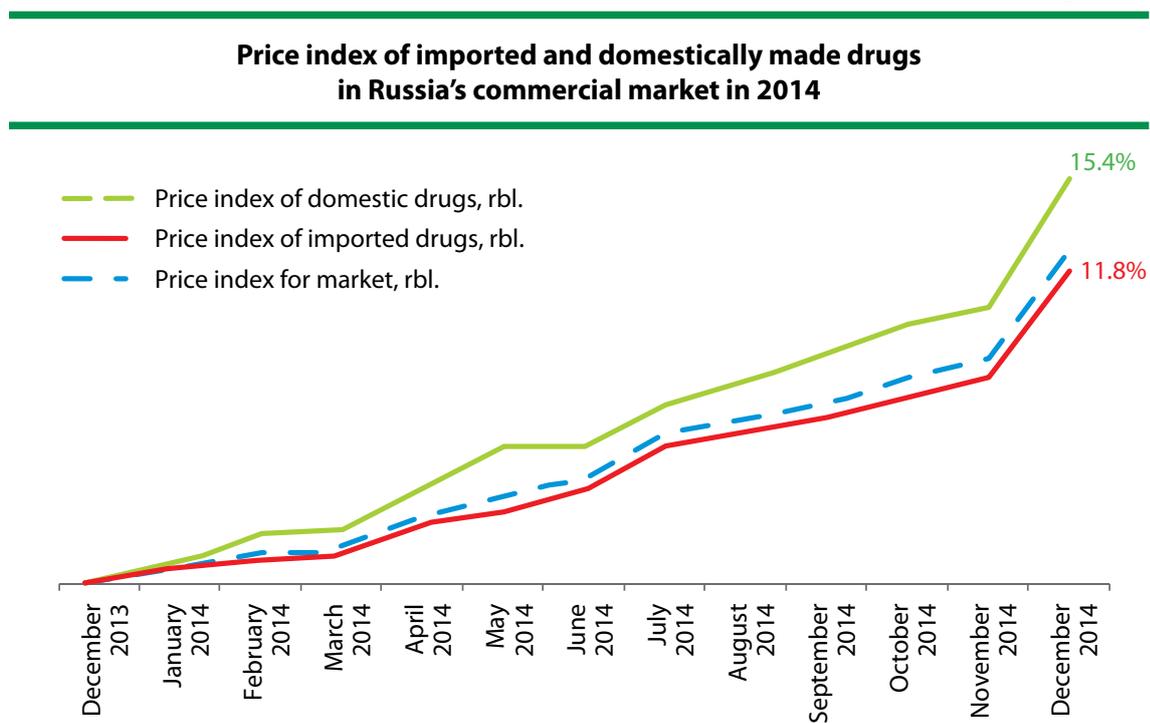
Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

The price index of imported and domestic drugs in 2014 is shown in Figure 13.

In 2014 the prices for domestic and imported drugs changed differently. The figures were 15.4% and 11.8% respectively. Just as last year, the prices for Russian-made medicines rose at a faster rate than those for imported drugs.

² The price index for the current year was calculated based on a crossed list of all full names of drugs commercially available in the preceding year.

Figure 13

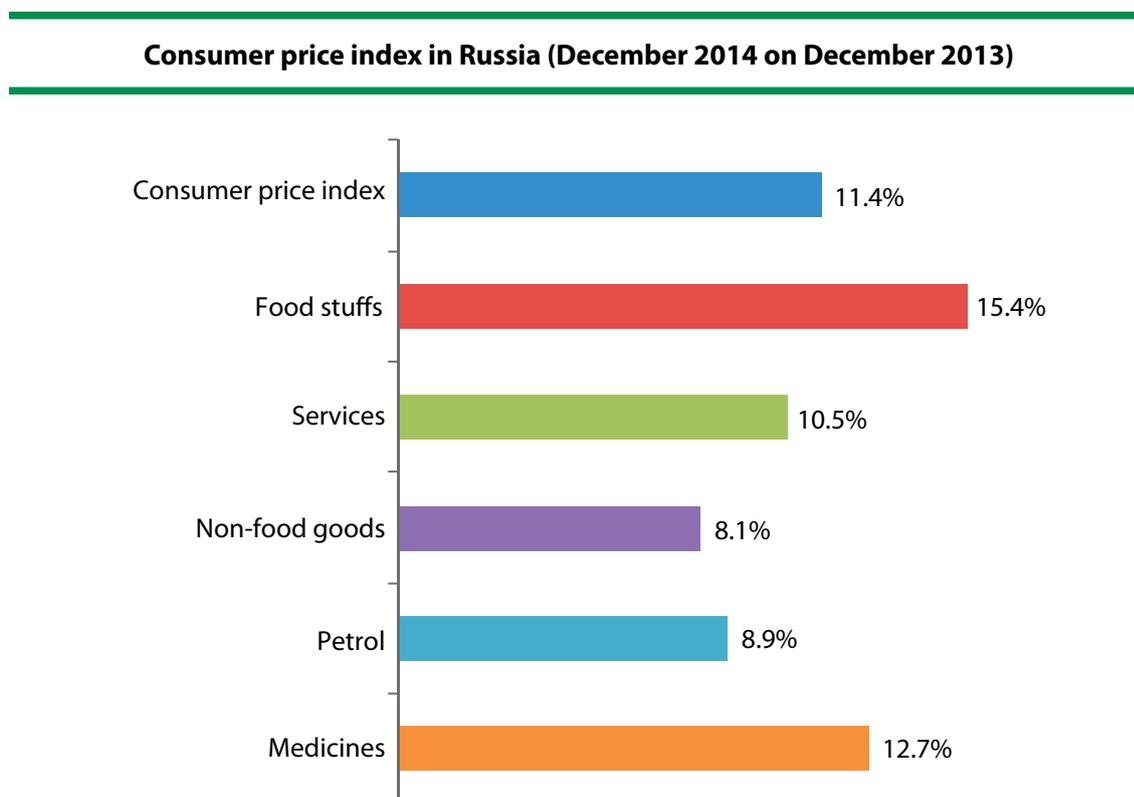


Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

According to Goskomstat's figures, medicinal drugs claimed about 2.0% of the basic structure of consumer spending in Russia in 2014, up 0.1% on 2013. Therefore, Goskomstat slightly upgraded the value of medicines in consumer spending.

Figure 14 shows the overall consumer price index, as well as price indices for certain categories of goods and services.

Figure 14



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008, Goskomstat

The overall consumer price index was 11.4% in 2014. In this context, the highest price hikes were for foodstuffs (15.4%). The slowest growing were the prices for petrol (8.9%) and non-food goods (8.1%).

9. New drugs in the retail commercial market

New drugs appear on the drugs market every year. In 2014 Russian pharmacies added 339 new brands. The total sales were 938 mln roubles and 3.9 mln units, which comes to 0.18% of the value and 0.09% of the physical volume of pharmacy sales of all medicinal products in the retail commercial market. The weighted average per unit price of the new drugs was about 238 roubles.

Most novelties were made by foreign manufacturers; Russian companies rolled out 117 brands this year.

Table 5

Top 20 new trade names of 2014 in the RF commercial market				
It. No	Brand	Company	Total value, mln rbl.	Retail release date
1	LISTATA	IZVARINO PHARMA	36.1	March 2014
2	DALNEVA	KRKA	29.1	January 2014
3	EZLOR	OZON	21.4	May 2014
4	BILIOBIL INTENSE	KRKA	15.0	January 2014
5	ZODAC EXPRESS	ZENTIVA	14.9	July 2014
6	TORAXOL SOLUTION TABLETS	OZON	12.5	May 2014
7	TWYNSTA	BOEHRINGER INGELHEIM	9.4	February 2014
8	SIBRY BREATHHALER	NOVARTIS	8.8	June 2014
9	IPRATEROL-NATIV	NATIVA	5.8	February 2014
10	VALCYCON	VERTEX	4.7	March 2014
11	EGIPRES	EGIS	4.5	August 2014
12	ELADON	VERTEX	4.4	October 2014
12	ROZUVASTATIN-C3	SEVERNAYA ZVEZDA	4.2	September 2014
13	EDARBI	TAKEDA	4.1	September 2014
15	TENFLEX SPRAY	ABDI IBRAHIM ILAC SAN. VETIC. A.S.	3.8	April 2014
16	ISMIGEN	STADA	2.7	September 2014
17	TAFLOTAN	SANTEN OY	2.0	June 2014
18	EPITERRA	TEVA	1.8	April 2014
19	ERIKA-35	FAMY CARE LIMITED	1.6	April 2014
20	FYCOMPA	EISAI EUROPE LIMITED	1.3	June 2014

Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Emerging as the best seller among the new drugs released in March 2014 was the brand LISTATA for slimming. The sales of this drug were 36.1 mln rbl. The active ingredient is Orlistat (INN). It inhibits the action of gastrointestinal lipases, leading to a 30% reduction in triglyceride assimilation and thus reducing the calorie intake.

The runner-up is the drug DALNEVA with sales of 29.1 mln rbl. The drug DALNEVA (amlodipine/perindopril INN) made by KRKA is a drug for the treatment of arterial hypertension and/or coronary artery disease.

In third place is a generic drug EZLOR (Desloratadine INN). It is used to treat conditions such as allergic rhinitis (prevention or alleviation of sneezing, nasal congestion, nasal mucus flow, nasal irritation, palate irritation, eye irritation and redness, and lacrimation); urticaria fever (reduction or prevention of skin irritation/rash).

A review of the sales of new drugs at year-end 2014 shows that the leader in money terms is the pharmacological group of GI lipase inhibitor (Orlistat). The leading troika also included Antihypertensive Combination (ACE [angiotensin converting enzyme] inhibitor+CCBA [calcium channel-blocking agents]). Ranked third was the group of antiallergic products: histamine H1-receptor inhibitor (Desloratadine INN), made by OZON.

Also in the top 20 is the drug BILOBIL INTENSE, which incorporates a standardized extract of ginkgo biloba leaves, whose main components are flavone glycosides and terpenes (ginkgolides and bilobalides). These active ingredients give the extract its inherent pharmacological activity.

High sales were achieved by the antiallergic drug ZODAC EXPRESS (Levocetirizine INN), which begins to act as soon as 12 minutes after application and lasts for 24 hours, with no sedative effect.

The 2014 ranking of new medicines shows an expectorant (mucolytic agent), TORAXOL SOLUTION TABLETS (Ambroxol INN), made by OZON, and an immunostimulatory drugs of bacterial origin for sublingual (under the tongue) administration, ISMIGEN, which is used for the treatment of acute and subacute upper and lower respiratory tract infections: bronchitis, tonsillitis, pharyngitis, laryngitis, rhinitis, sinusitis and otitis, including influenza complications.

The year-end 2014 top 20 novelties featured 7 domestic manufacturers and 13 foreign-made items. What is more, the leading troika included drugs made within the RF.

One would like to mention that by monetary volume of sales imported drugs are in the lead, but the share of Russian novelties is up on last year. This was a result of government support for domestic manufacturers of medicines and the import substitution programme, which is intended by the RF Government to supply the Russian pharma market with domestic medicines up to 90% by 2018.

3. Drug Reimbursement Program

Drug Reimbursement Program (DLO) for eligible beneficiaries are a social safety net mechanism.

In 2014 the DLO program was 10 years. While being implemented, the programme underwent a number of changes, with an overhaul in 2008:

- a separate group was introduced for 7 cost-intensive ICD diseases, whose treatment requires expensive therapy (CICD or 7 cost-intensive ICD diseases);
- effective as of 2008, in compliance with the Federal Law of 18.10.2007, No 230-FZ, On amending certain legislative acts of the Russian Federation in connection with improvement in jurisdiction separation, Russian Federation members were given a mandate to invite tenders for a public contract for the supply of the required medicinal products for eligible beneficiaries as part of social safety net and for the organization of pharmacological support (PNMP).

The transfer of powers and authority to the RF members was a factor in the stabilization of pharmacological support; the share of delayed benefits dropped dramatically. RF members started paying more attention to the administration of the programme.

Since 2007 the beneficiary has been in a position to choose the way to receive benefits: money or prescription medicines. Eligible beneficiaries currently number some 19 mln, but the number of beneficiaries in receipt of Drug Reimbursement Program (DLO) decreases year on year and now stands at approximately 1/5 of the total number. In 2014, the beneficiaries numbered about 3.5 mln.

At the same time, the last few years have seen an active discussion of further steps in the medicine assistance programme.

At present, the provision of medicines to citizens under outpatient treatment in the context of PNMP is part of the social safety net, while being classified as medical assistance when under inpatient treatment. Funding for medical, and specifically medicinal, assistance comes from: public coffers (regional, municipal), compulsory medical insurance (CMI) funds, and personal savings.

The central area of focus of the medicines policy being developed in the Russian Federation is:

- reclassification from social safety net to medical assistance under compulsory medical insurance system for outpatients;
- the procedure for public procurement of drugs must be replaced with reimbursement of the price of drugs issued to citizens by pharmacies as prescribed by their physician.

Provision of free or subsidized medicines to patients at early stages is definitely in the government's interests, as has been demonstrated globally and in Russia: it leads to serious savings on hospital treatment and to lower mortality rates. However, no sources of funding or schemes for reimbursement for medicines have yet been determined.

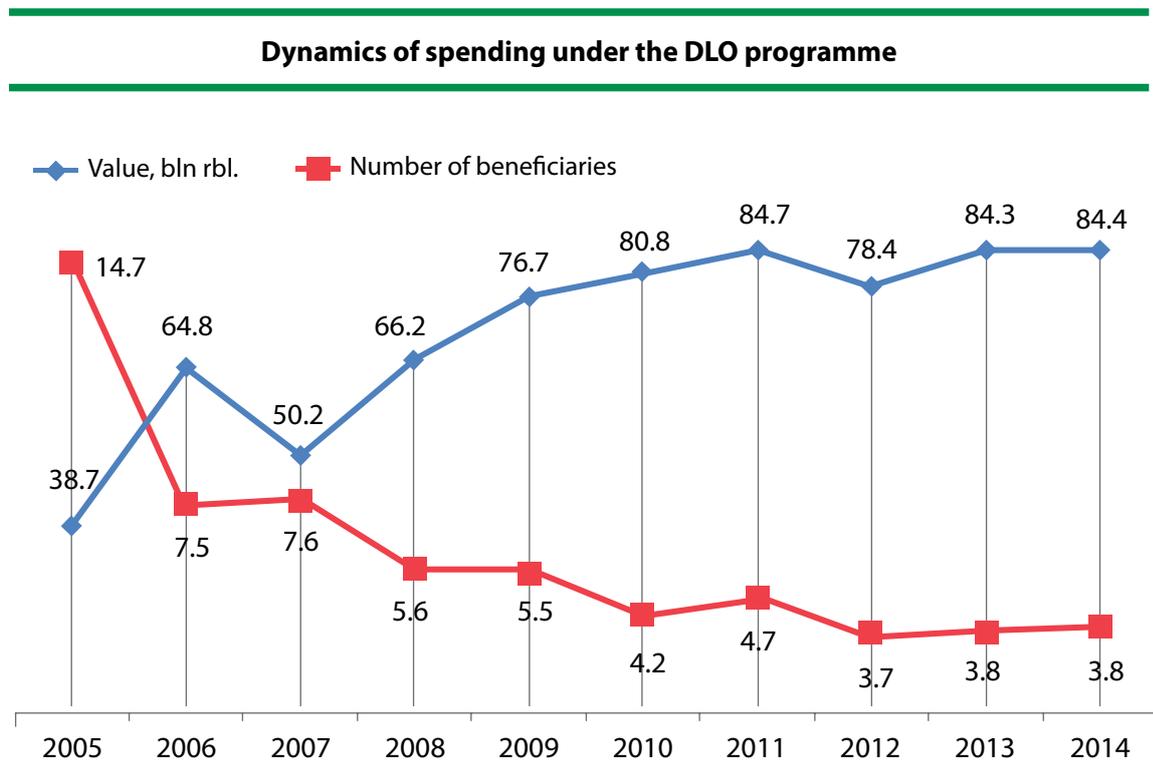
The Drug Reimbursement Program (DLO) Strategy to 2025, approved by Minzdrav in 2013, provides that various schemes must be tested in several regions in Russia in 2015-2016, with the switchover to a system of reimbursement for medicines to begin in 2017. Minzdrav proposes an outpatient medicine assistance model (i.e. for health centres), which would provide for a partial reimbursement of the cost of medicines.

In Kirov Oblast a pilot medicine assistance project got underway in 2013: the programme included cardiovascular diseases. The following financing mechanism was chosen: 90% to be paid by the oblast, the remaining 10% by the patient. The programme proved a success in its first year: the number of ambulance calls in the two municipal entities chosen went down by 24%, hospitalizations by 27.3%. The programme's economic effect was 25.8 mln rbl. However, the local authorities have no funds to expand the programme to all of the oblast or to include other diseases. That is why the central question that remains is financing sources.

Given the trend for the implementation of single-source financing, it is not inconceivable that the system will follow the principles of pharmaceutical insurance and be implemented using CMI funds. But Kirov Oblast's experiment in medicine assistance shows that no insurer agreed to take part in it: no data are available on patients, diseases or expenses.

As is evident from Fig. 15, at year-end 2014 medicines were purchased for benefit-entitled citizens worth 84.4 bln rbl. The increase on 2013 was less than 1% – this is one of the DLO programme’s smallest gains ever. In physical terms, the downward trend remains in sales: 8.6% less drugs were procured in 2014 than in 2013, which corresponds to 68.8 mln units.

Figure 15



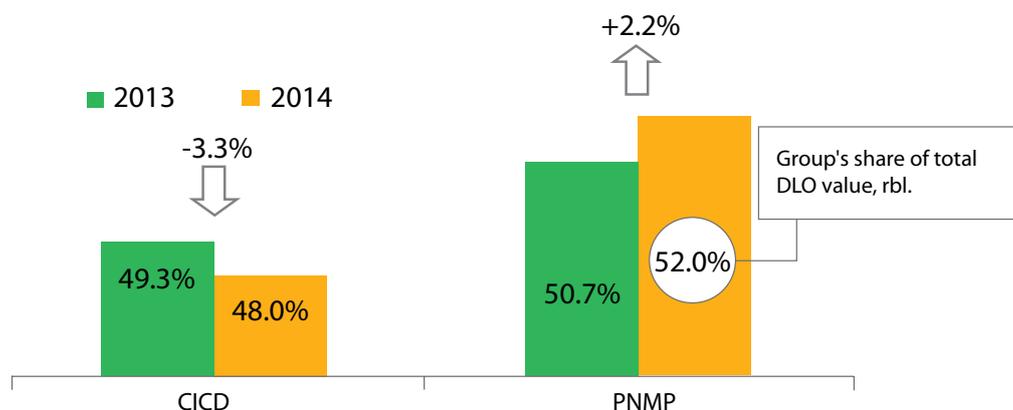
Source: DSM Group. ISO 9001:2008.

The monthly spending allowance per citizen entitled to government social assistance in the form of the social service of providing medicinal drugs, medical appliances, as well as special medical foods for disabled children, was up 5.2% in 2014 to 671 rbl.

A separate review of the programme’s two parts will show that both the volumes and the share of the sub-programme for procuring expensive drugs were down in 2014. The volumes were at the level of 40.5 bln rbl., down 3.3% on 2013 (Fig. 16). A distinctive feature of the 7 cost-intensive ICD diseases programme is a low number of beneficiaries: as of the beginning of 2014, the number of citizens suffering from diseases that require treatment with expensive medicinal drugs under the programme was about 130 thousand. Therefore, about 300 thou. roubles is available per CICD programme beneficiary.

In physical terms, the upward trend is still in place for the demand for medicinal drugs under the CICD programme: the quantity was some 3.2 mln units, up 9.5% on 2013.

Balance between the costs of the 7 cost-intensive ICD diseases and PNMP programmes as a percentage of the total spending under the DLO programme, in roubles



Source: DSM Group. ISO 9001:2008.

As usual, Minzdrav of Russia made as early as in late 2013 all the necessary arrangements for meeting in 2014 the regions' annual demand for medicines to treat diseases on the CICD list. Public invitations to tender were issued and 40 government contracts awarded with due regard to the approved demand for 2014, contingent on the suppliers' ability to deliver. Under most government contracts, drugs were supplied to RF members already at the end of 2013.

2014 was expected to be the last year when drugs under the CICD programme were procured centrally. The Federal Law of 25 November 2013, No 317-FZ, introduced amendments providing, effective as of 1 January 2015, for the delegation to the public authorities of RF members the powers and authority to organize the provision of beneficiaries with medicinal drugs under the 7 cost-intensive ICD diseases programme. But the RF president signed a law to postpone the delegation of responsibility to provide patients with drugs under the Seven Cost-Intensive ICD Diseases Programme until 1 January 2018. The memorandum on the law says that decentralization of drugs procurement within the time limits set previously would have been detrimental to the RF's undertakings to provide patients with drugs and would have resulted in inefficient use of public money: to procure MPs by each region separately would have necessitated at least an 83-fold increase in the number of tendering processes, which would have inevitably complicated the drugs purchase procedure and pushed up drugs costs.

Since around 2013 there have been widely discussed options for expanding the 7 cost-intensive ICD diseases programme to include 27 more rare diseases, which currently afflict some 13 thou. people in Russia. But no information is currently available on the expansion of the programme.

The PNMP programme cost 43.9 bln rbl. in 2014, up 2.2% on 2013. In this context, the PNMP sub-programme's share of the total Drug Reimbursement Program (DLO) is up for the first time in a few years: from 50.7% in 2013 to 52.0% in 2014 (Fig. 14).

In physical terms, the downward trend remains in procurement: about 65.7 mln units were sold, down 9.3% on 2013. Therefore, the weighted average per prescription cost was 669 rbl., up 75 rbl. on 2013.

1. Balance between imported and domestic drugs in DLO

The DLO programme mostly involves imports; domestic products account for a small fraction of subsidized medicines. According to the PHARMA-2020 programme, the government's primary objective is to reverse the situation: efforts to this effect must increase the share of domestic drugs to some 50%.

That is why it is no coincidence that the market in general and the programme for reimbursement for medicines in particular have developed a trend to feature an ever greater number of domestic drugs that can be used as substitutes for foreign-made drugs.

At year-end 2014, the share of domestic drugs was down 1% by value (Fig. 17). The growth of spending on domestic medicines is down 9.2%, whereas the consumption of imported drugs is up 0.9%.

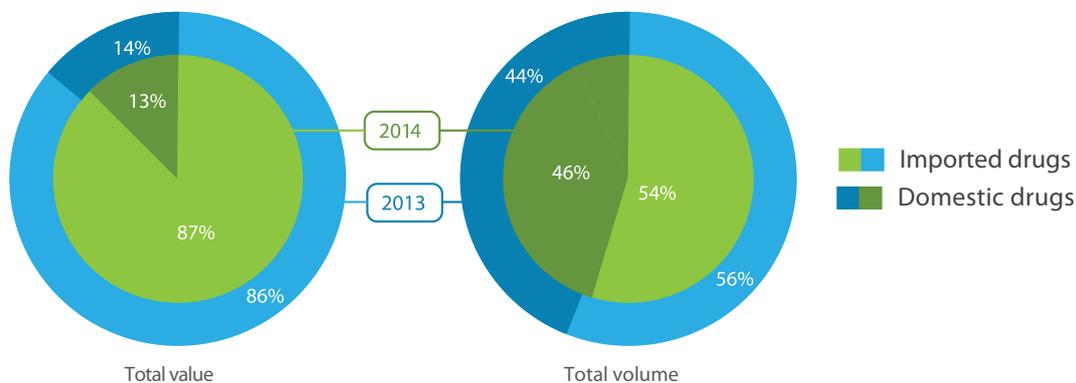
The above notwithstanding, there are positive trends in the situation with domestic drugs. E.g.,

2014 saw the rollout of a drugs with the best-selling INN in the DLO segment – RITUXIMAB - the brand ACELLBIA of the company ZAO BIOCAD.

In 2014, IPRATROPIUM BROMIDE/FENOTEROL INN was for the first time offered by a national company, NATIVA – the brand IPRATEROL-NATIV.

Figure 17

Balance between the sales of imported and domestic drugs



Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

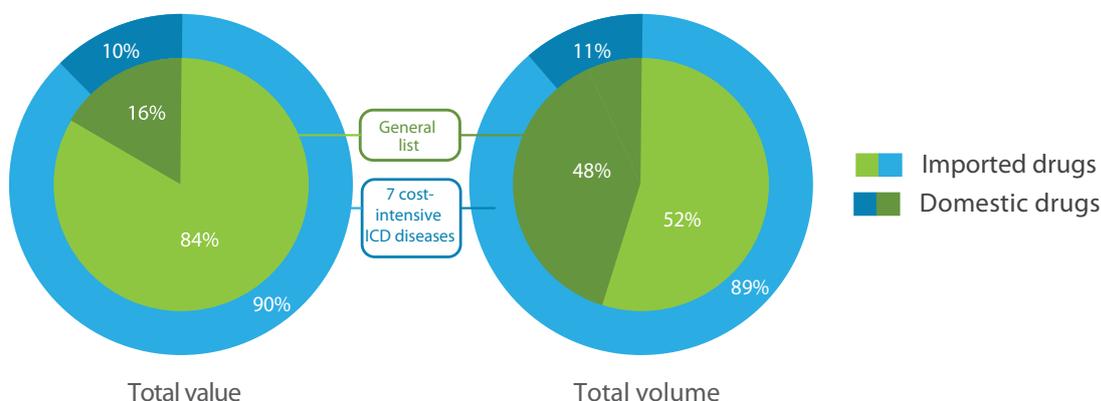
Despite positive trends, the balance still favours imported drugs: 87% of the total value is accounted for by drugs of foreign origin; 13% by domestic drugs.

In physical terms, the share of domestic drugs is up for the first time in a few years (+ 1%). That said, the downward trend remains in the sales of both domestic and imported drugs in terms of units sold: in 2014, the sales of domestic and imported drugs were down 4% and 12% respectively.

The balance between the sales of imported and domestic drugs under the 7 cost-intensive ICD diseases and PNMP programme is shown in Figure 18. As regards DLO corresponding to 7 cost-intensive ICD diseases, domestic drugs accounted for about 10% of the total value in 2014 (13% in 2013). By volume, their share was some 11% (up 2% on 2013). The roll-out of new drugs is not a fast process, so any increase in Russian producers' share of subsidized programmes will happen in steps.

Figure 18

Balance between the sales of imported and domestic drugs under the 7 cost-intensive ICD diseases and PNMP programmes



Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

Under the PNMP programme, the share of Russian-made drugs, just as in 2013, is about 16% by value and about 48% by volume (up 3% on 2013).

2. Balance between prescription and OTC drugs in DLO

The bulk of the DLO programme is by a wide margin, both in terms of value and volume, prescription drugs – after all, all these drugs are prescribed by a physician strictly as clinically indicated.

In Russia in 2014 the share of prescription drugs under the DLO programme remained virtually the same: it was 98.5% and 87.8% by value and volume respectively.

3. Drugs sales mix by ATC group in DLO

The structure of drugs pharmacy sales under the DLO programme by ATC level 1 group in Russia in 2014 is shown in Table 6.

Table 6

Drugs sales mix by ATC group in the DLO market				
ATC level 1 group	Total value, mln rbl.	Group's share of total worth	Total volume, mln. u.	Group's share of physical quantity
L: Antineoplastic and immunomodulating agents	40,828.3	48.4%	3.1	4.4%
A: Alimentary tract and metabolism	13,041.5	15.5%	17.5	25.5%
B: Drugs affecting hematogenesis and blood	12,213.8	14.5%	5.1	7.4%
R: Drugs for the treatment of respiratory diseases	5,072.0	6.0%	4.9	7.1%
N: Drugs for the treatment of nervous disorders	3,418.7	4.1%	10.4	15.1%
C: Drugs for the treatment of cardiovascular diseases	2,521.6	3.0%	20.6	30.0%
H: Hormonal drugs for systemic use (excluding sex hormones)	1,996.2	2.4%	0.8	1.1%
J: Antibacterial drugs for systemic use	2,208.6	2.6%	0.7	1.1%
M: Drugs for the treatment of musculoskeletal disorders	1,196.5	1.4%	2.7	3.9%
V: Other drugs	964.1	1.1%	0.3	0.5%
G: Drugs for the treatment of urogenital diseases and sex hormones	429.5	0.5%	0.9	1.3%
[~] drugs without an ATC classification	282.5	0.3%	0.2	0.2%
S: Drugs for the treatment of sensory processing disorders	197.2	0.2%	1.5	2.1%
D: Drugs for the treatment of skin diseases	21.0	0.0%	0.2	0.2%
P: Antiparasitic drugs, insecticides and repellents	1.0	0.0%	0.0	0.0%

Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

The ATC ranking by sales volume as per programme DLO is quite consistent.

The drugs of group [L], Antineoplastic and immunomodulating agents, still remain the biggest expense item of the DLO programme – just as in 2013, they accounted for about 48% of all public funds spent to procure them. The costs of their procurement in 2014 changed little, if at all, in roubles compared to last year (-0.4%), but were up by volume (+8.9%). Antineoplastic agents ([L01] and [L02]) of the latest generations have a proven track record in treating patients with cancers

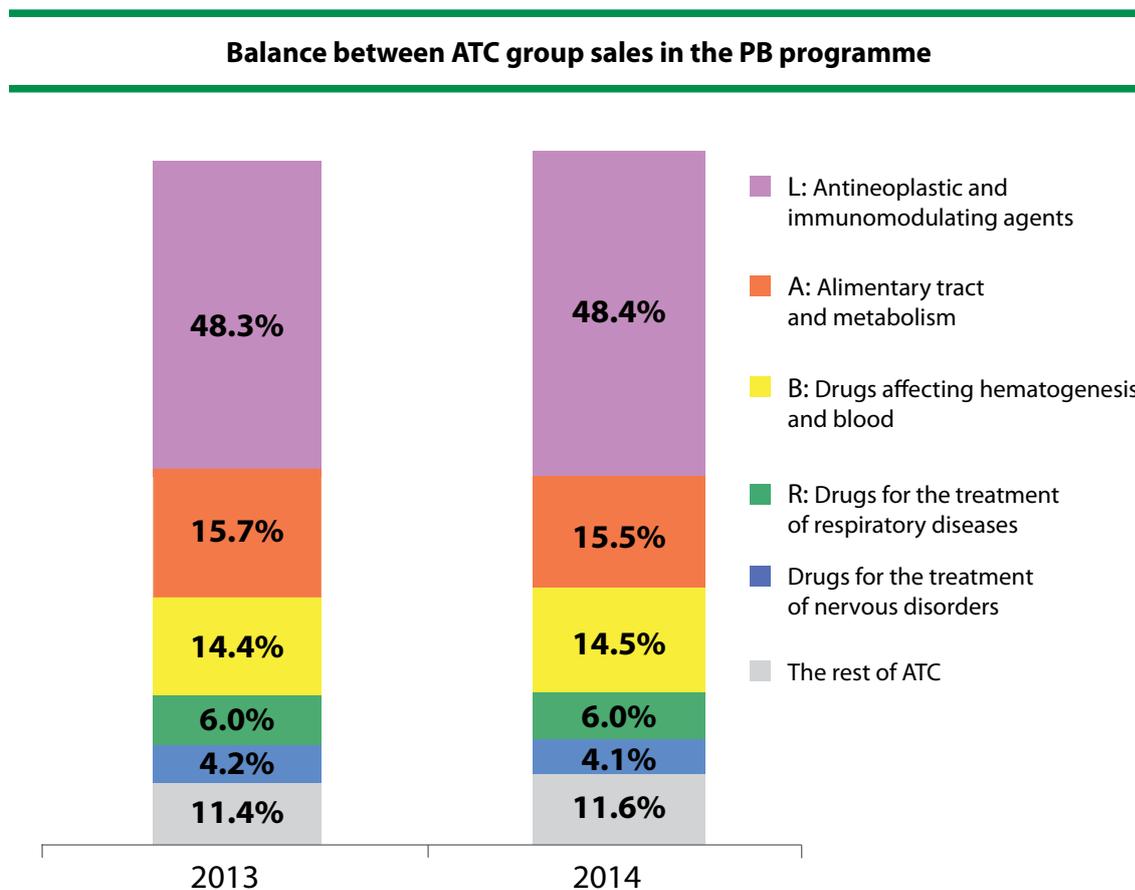
and improve the quality and length of life. The 2014 leaders in this ATC group are still the drugs MABTHERA and VELCADE. The top three are completed by the brand COPAXONE-TEVA, which rose to third place in the ranking in 2013.

In second place in the ranking are the drugs of ATC group [A], Alimentary tract and metabolism. 2014 saw a 2.3% and 12.5% reduction in the group's sales by value and volume respectively. Some 72% of all sales in this group are accounted for by diabetes drugs ([A10]). This group's leaders by value sales, are still, just as in 2013, the foreign-made drugs LANTUS, CEREZYME and HUMULIN. The average per unit price is about 3,300 roubles for LANTUS, about 71,000 roubles for CEREZYME, but only about 1,000 rbl. for HUMULIN.

The top three are completed by [B], Drugs affecting hematogenesis and blood (14.5%). In 2013, this group increased its sales for the first time in many years, but in 2014 its sales were down again: the volume was down 8.2%, but the value changed little, if at all (+1.0%). The largest subgroup in this ATC [group], [B02], ANTIHEMORRHAGICS, accounts for 74% of the sales.

The DLO line-up of the five leaders by ATC group in 2014 did not change compared with the previous year: the share by total worth was about 88%. The ranking shows minimum changes: in places group [J] and [N] (Fig. 19).

Figure 19



Source: DSM Group. ISO 9001:2008.

Group [L], Antineoplastic and immunomodulating agents, still accounts for 2/5 of the DLO sales. This is the most expensive group of drugs in DLO – the weighted average per unit price is about 13,300 rbl. (about 14,000 rbl. in 2013). At year-end 2014, the two leading ATC groups show higher sales in roubles (group [L] and [B]); the sales of the others are down. In terms of units sold, a gain among the top 5 ATC [groups] is only observed for [L].

It is interesting to see how much is spent under the DLO programme on the treatment of major groups of diseases. With this end in view, we have ranked drugs for relevant indications. That gave us the following ranking of DLO costs by disease (tab. 7).

Table 7

Ranking of DLO costs by disease, 2014		
Disease	Volume, millions of rubles	Share
ONCOLOGICAL DISEASES	25,772.4	30.5%
IMMUNOLOGIC DISEASES	15,055.6	17.8%
DISEASES OF BLOOD AND BLOOD-FORMING ORGANS	12,213.1	14.5%
DIABETES	10,008.9	11.9%
RESPIRATORY DISORDERS	5,072.0	6.0%
NERVOUS DISORDERS	3,418.7	4.1%
GASTROINTESTINAL DISEASES	3,089.1	3.7%
CORONARY HEART DISEASES	2,264.6	2.7%
DISEASES CAUSED BY VARIOUS INFECTIOUS AGENTS	2,209.1	2.6%
ENDOCRINE DISEASES	1,996.2	2.4%
OTHER	1,768.3	2.1%
MUSCULOSKELETAL DISORDERS	1,196.5	1.4%
OPHTHALMOLOGICAL DISEASES	197.2	0.2%
MALE AND FEMALE REPRODUCTIVE DISORDERS	109.6	0.1%
SKIN DISEASES	21.0	0.0%

Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

The number 1 spot in the ranking is occupied by cancer drugs, whose share is 30% of the total value of the entire DLO segment (about 25 bln rbl). The largest procurement volume involves the drugs Rituximab INN (MABTHERA) and Bortezomib INN (VELCADE), which are included on the 7 cost-intensive ICD diseases programme as means for the treatment of patients with malignant growths of lymphoid, blood-forming and related tissues. According to the figures from the Ministry for Public Health and Social Development of Russia, cancer is the second leading cause of death in Russia after cardiovascular diseases. The National Oncological Programme got off the starting blocks in 2009, leading to an increase in the number of patients with early-diagnosed tumours, with the mortality rate due to this condition starting to decline in Russia for the first time in several decades. E.g., according to WHO figures, the mortality rate was down in 2013 on 2008 by 7.1% and 4.8% among men and women respectively. According to WHO statistics, cancers claimed the lives of 288,636 Russians in 2013. In this context, 535,887 people were diagnosed with cancer.

At year-end 2014, drugs for the treatment of immunologic diseases are in second place, having outperformed drugs for the treatment of blood diseases in the sales ranking. The largest cost increase in this group is recorded for drugs with immunomodulatory and immunosuppressive effects, with the top three brands in this group remaining the same for a number of years now.

The largest spending among immunomodulatory drugs is accounted for by the brand

COPAXONE-TEVA (GLATIRAMER ACETATE INN), which is on the list of multiple sclerosis treatments under the 7 cost-intensive ICD diseases programme. Also at the top of the list of drugs for the treatment of immunologic diseases are the brands REMICADE (+12.3%) and GENFAXON (-29%).

Among the treatments for diseases of blood and blood-forming organs, the highest sales are still recorded for BLOOD COAGULATION FACTOR VIII INN (39.6%), EPTACOG ALFA INN [ACTIVATED] (17.6%) and OCTOCOG ALFA INN (9.4%). All three INNs are covered by the 7 cost-intensive ICD diseases programme. And at year-end 2014, the group's leader, BLOOD COAGULATION FACTOR VIII INN, was down 3.7% by sales value, while EPTACOG ALFA INN [ACTIVATED] and OCTOCOG ALFA INN continued to increase their sales: by 17.5% and 9.4% respectively. The increase in the sales of these INNs is due to the sales of drugs such as NOVOSEVEN (up nearly 28 times) and RECOMBINATE (nearly 1.5 times).

Therefore, at the top of the DLO ranking are still diseases that can be largely classified as cost-intensive ICD diseases. The total spending on drugs in these groups of diseases is in excess of 60% of the entire DLO segment, or some 50 bln rbl.

4. DLO segment manufacturers

Table 8 lists top 20 manufacturers with the highest consumption under the DLO programme in 2014.

The downward trend continues for the number of manufacturers involved in the DLO programme: in 2013, the DLO programme had about 380 manufacturers; in 2014, just 320.

Top 20 drugs manufacturers by DLO consumption in 2014

2014 ranking	Change	Manufacturer	Total value, mln rbl. 2014	Total value increase	Share
1	0	F.HOFFMANN-LA ROCHE	14,837.4	17.6%	-1.2%
2	0	JOHNSON & JOHNSON	7,891.2	9.4%	11.3%
3	0	TEVA	6,042.6	7.2%	-5.8%
4	0	SANOFI	5,442.0	6.4%	-1.5%
5	+1	BAXTER HEALTHCARE	4,075.9	4.8%	14.8%
6	+6	Merck & Co. Inc	3,818.1	4.5%	64.9%
7	0	NOVO NORDISK	3,205.6	3.8%	-2.6%
8	+3	ASTRAZENECA UK LD	2,900.5	3.4%	11.1%
9	0	NOVARTIS	2,771.2	3.3%	-0.5%
10	+15	GENERIUM	2,719.3	3.2%	299.7%
11	-6	LABORATORY TUTEUR	2,682.3	3.2%	-43.8%
12	+2	OCTAPHARMA AG	1,912.2	2.3%	20.1%
13	0	ELI LILLY	1,746.7	2.1%	5.7%
14	+1	BOEHRINGER INGELHEIM	1,533.0	1.8%	3.1%
15	-5	F-SINTEZ	1,336.6	1.6%	-49.5%
16	+3	GLAXOSMITHKLINE	1,204.7	1.4%	28.7%
17	-9	PHARMSTANDART	1,024.9	1.2%	-66.3%
18	-1	SERVIER	999.1	1.2%	-9.2%
19	+1	FRESENIUS	909.1	1.1%	0.9%
20	+2	BIOCAD	811.2	1.0%	4.7%

Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

The top four of 2013 have kept their positions. Just as in previous years, F.HOFFMANN-LA ROCHE claimed the top spot in the ranking of manufacturers. In 2014, the total public spending on drugs made by this company was nearly 15 bln rbl., down 1.2% on 2013. Just as last year, the costliest drug was MABTHERA, which is based on monoclonal antibodies (about 56% of the company's total sales by value), the purchases of which were up 64.6%.

The runner-up is the company JOHNSON & JOHNSON, which increased its sales by 11.3% over 2014, mostly through the sales of the best-performing antineoplastic agent VELCADE (+15% in roubles).

At year-end 2014, two Russian manufacturers made the top 20 by sales value. A newcomer to the ranking, the company GENERIUM, claimed the 10th spot in the ranking, having started the sales of the drug COAGIL, blood coagulation factor VII A. The company BIOCAD included in the DLO programme the drug INTERFERON BETA-1B, which enabled it to rise two notches and make the top twenty.

Table 9 presents a ranking of manufacturers involved in the 7 cost-intensive ICD diseases and PNMP programme.

**Top 20 drugs manufacturers by sales in the DLO segment under
the 7 cost-intensive ICD diseases and PNMP programmes**

7 cost-intensive ICD diseases			PNMP		
2014 ranking	Manufacturer	Group share, rbl.	2014 ranking	Manufacturer	Group share, rbl.
1	F.HOFFMANN-LA ROCHE	9,553.0	1	F.HOFFMANN-LA ROCHE	5,284.3
2	JOHNSON & JOHNSON	6,789.3	2	SANOFI	4,248.2
3	TEVA	5,387.0	3	NOVO NORDISK	3,121.5
4	BAXTER HEALTHCARE	4,039.1	4	ASTRAZENECA	2,900.5
5	GENERIUM	2,719.3	5	Merck & Co. Inc	2,535.5
6	LABORATORY TUTEUR	2,225.4	6	ELI LILLY	1,746.7
7	OCTAPHARMA	1,672.6	7	BOEHRINGER INGELHEIM	1,533.0
8	Merck & Co. Inc	1,282.6	8	NOVARTIS	1,492.5
9	NOVARTIS	1,278.7	9	GLAXOSMITHKLINE	1,204.7
10	SANOFI-AVENTIS	1,193.8	10	JOHNSON & JOHNSON	1,101.9
11	CSL BEHRING	631.0	11	SERVIER	999.1
12	CINNAGEN	581.3	12	FRESENIUS	909.1
13	F-SINTEZ	569.4	13	PHARMSTANDART	804.6
14	TALECRIS BIOTHERAPEUTICS I	550.8	14	F-SINTEZ	767.2
15	BIOCAD	537.9	15	KRKA	752.2
16	BAYER	284.0	16	FARM-SINTEZ (MOSCOW)	699.7
17	ASTELLAS PHARMA	262.5	17	TEVA	655.5
18	BIOTEST PHARMA	260.7	18	SOTEX	622.2
19	PHARMSTANDART	220.4	19	BEAUFOR IPSEN	594.2
20	PANACEA BIOTEC	174.9	20	ABBOTT	499.0
Total		99.4%	Итого		73.9%

Source: DSM Group. ISO 9001:2008.

From the top 20 for the normal list, the ranking of manufacturers involved in the 7 cost-intensive ICD diseases programme received 6 companies: F.HOFFMANN-LA ROCHE, JOHNSON & JOHNSON, TEVA, PHARMSTANDART, Merck & Co. Inc. and NOVARTIS. Just as in previous years, the leader in the 7 cost-intensive ICD diseases programme is the company F.HOFFMANN-LA ROCHE, which is also No.1 in the PNMP ranking. Note that the top 20 firms in the CICD ranking include 4 domestic manufacturers: PHARMSTANDART, F-SINTEZ, BIOCAD and GENERIUM.

5. DLO segment drugs

Table 10 lists the top 20 brands with the greatest sales under the DLO programme in 2014.

Top 20 brands by DLO sales value in 2014

2014 ranking	Change	Brand name	Manufacturer	Total value, mln rbl. 2014	Total value increase	Share
1	0	MABTHERA	F.HOFFMANN-LA ROCHE	8,349.5	4.6%	9.9%
2	0	VELCADE	JOHNSON & JOHNSON	6,789.3	15.2%	8.0%
3	0	COPAXONE-TEVA	TEVA	5,014.3	4.0%	5.9%
4	0	LANTUS	SANOFI	2,770.1	8.5%	3.3%
5	0	HERCEPTIN	F.HOFFMANN-LA ROCHE	2,147.6	-11.3%	2.5%
6	+3	COAGIL	GENERIUM; PHARM-STANDART	2,083.2	14.1%	2.5%
7	+3	REMICADE	SCHERING-PLOUGH	1,945.9	12.3%	2.3%
8	-2	GENFAXON	LABORATORY TUTEUR	1,639.8	-29.0%	1.9%
9	+6	HEMOFIL	BAXTER HEALTHCARE	1,484.0	29.5%	1.8%
10	+10	RECOMBINATE	BAXTER HEALTHCARE	1,384.3	52.5%	1.6%
11	+3	AVASTIN	F.HOFFMANN-LA ROCHE	1,323.8	15.1%	1.6%
12	-	REBIF	MSD	1,282.6	-	1.5%
13	+6	OCTANAT	OCTAPHARMA	1,255.7	33.0%	1.5%
14	-3	CEREZYME	GENZYME CORPORATION	1,193.8	-16.8%	1.4%
15	-3	PULMOZYME	F.HOFFMANN-LA ROCHE	1,174.7	-4.1%	1.4%
16	+1	SYMBICORT	ASTRAZENECA	1,073.8	7.2%	1.3%
17	-1	HUMULIN	ELI LILLY	1,051.1	-4.9%	1.2%
18	+4	NOVORAPID	NOVO NORDISK	915.8	11.4%	1.1%
19	+2	KETOSTERYL	FRESENIUS	900.3	2.6%	1.1%
20	+4	LEVEMIR	NOVO NORDISK	825.7	9.8%	1.0%

Source: DSM Group. ISO 9001:2008.

Note: the sales volume shown is in final consumer prices with VAT included.

The sales of the top 20 brands in 2014 were 52.9% of the total value, a mere 0.4% up on 2013.

In 2014 the top five in the brand ranking did not relinquish their positions: MABTHERA, VELCADE, COPAXONE-TEVA, LANTUS and HERCEPTIN. Still, four drugs increased their sales, and the brand HERCEPTIN was down in sales by 11.3%.

Note that the ranking has four new players – a multiple sclerosis drugs, REBIF (up 826 notches), a renal treatment, KETOSTERYL, and diabetes drugs, NOVORAPID and LEVEMIR.

The weighted average price for the top 20 brands is very high – about 23,000 rbl. per unit. Just as in previous years, CEREZYME, a drug for treating an orphan disease, Gaucher disease, is still the most expensive (approximately 71,000 rbl.); HUMULIN, a genetically engineered human insulin drug, the cheapest (about 1,000 rbl.).

Most of the top 20 drugs and the leading troika, in particular, fall within group [L], Antineoplastic and immunomodulating agents (8 brands). Second place in terms of this parameter is claimed by ATC code [B], Diseases of blood and blood-forming organs (4 brands).

Most of the ranked drugs are medicines provided under the 7 cost-intensive ICD diseases programme (11 brands).

6. DLO price segmentation

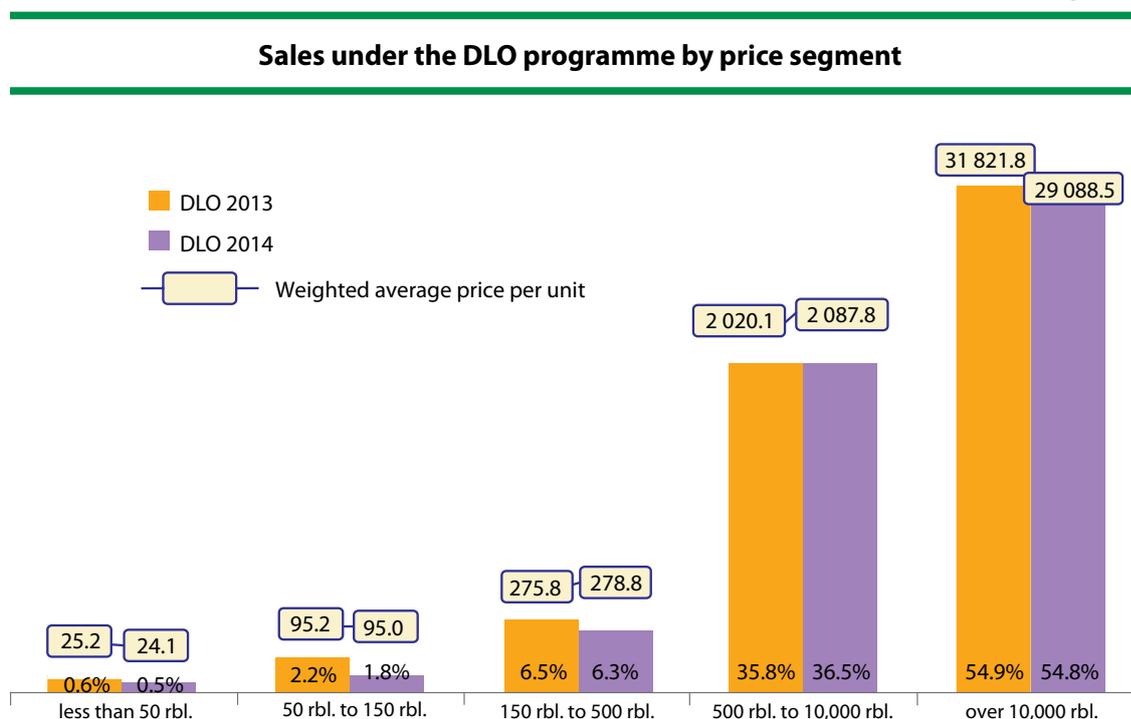
In 2014 the average per unit price under the DLO programme remained virtually the same at about 1127 roubles.

Since the launch of the DLO programme, the pricing structure in this segment of the market has been constantly reshaping to increase the share of high-end drugs. At year-end 2014, the segment of high-end medicinal products priced upwards of 500 rbl. accounted for 90.7% of the total value, and for 88.7% last year.

The consumption pattern of medicinal products under the DLO programme is presented in Fig. 20.

Changes in the per unit price of drugs procured under the DLO programme affected the high- and low-end drugs. The figure shows that the average per unit price in the segments of over 10,000 rbl. and below 50 rbl. is down, while increasing in the segment of 500 rbl. to 10,000 rbl. In this context, the largest depreciation is seen in the high-end segment of 10,000+ rbl. - the average per unit price is down 8.6%.

Figure20



Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

Just as in previous years, the CICD drugs are featured mostly in the segments of 500+ rbl. per unit – they account for 99.9% of the total value. Moreover, just as in past periods, 76% is the share of drugs priced above 10,000 roubles.

The drugs of the PNMP sub-programme are mostly in the segment of 500 rbl. to 10,000 rbl. – about 48%. The segment of over 10,000 roubles also accounts for a large value - 36%. In the segment of 500 rbl. to 10,000 rbl., the leader in terms of sales is a hypoglycemic agent, LANTUS, with a weighted average per unit retail price of over 3,400 roubles. Whereas in the high-end segment, the best seller, the antineoplastic agent HERCEPTIN, is priced at just below 70,000 rbl. per unit.

4. Health Facility (HF) segment sales

Since 1 January 2014 HFs have been subject to a law that governs the procedure for the procurement of medicinal drugs: [Federal Law] No 44-FZ, On contracting in central and local government procurement, is now in effect. Among other things, the law was intended to put in place the arrangements for centralized procurement. At year-end 2014, 44 out of 85 Russian Federation members switched to centralized procurement. In other words, this means joint tendering processes to be conducted by the regional centre in coordination with specific healthcare providers. Such implosion enables the economies of scale, delivering up to 30% price discounts. Later measures planned to prevent price rises provide for the introduction of long-term contracting - for 3 to 7 years — with a price fixed at today's level. Time will tell how this innovation will play out in the market and, most importantly, with manufacturers and suppliers. However, in Russia's volatile economy, this measure will enable the government to keep the prices down and prevent runaway inflation in public procurement.

Energetic efforts are being made to prepare a government decree that will bar foreign companies from public procurement of medicines if the drug sought is made by two or more manufacturers from Customs Union members. In the industry it has already been christened the «three is a crowd» decree. The main stumbling block appears to be the wordings: the bill talks about bids rather than drugs. It can so happen that tenders are submitted by two different distributors for one and the same drug, with the second producer turning out to be surplus to requirement. There also remains the question of definition of a domestic manufacturer, which is still not in place. For the time being, this is assumed to mean drugs even at the stage of packaging, but this definition is expected to be met only by fully integrated manufacturing as of 2015. But even those who have already set up packaging facilities in Russia can hardly hope to achieve full manufacturing integration in time. Which means that, having heavily invested in local facilities, they will not be able to recoup their investment fast enough.

It is expected that by 1 January 2016 the Economic Development Ministry together with the Ministry for Industry and Trade of Russia will have put in place a graded scale of incentives for locally made medicines based on their local manufacturing content.

One of the tasks envisioned by the government for the upgrading programme as far back as 2010 is import substitution. The targets are certainly still a long way off (Russian-made drugs are to have 50% of the market by 2020). But positive examples are already available. E.g., to date out of 12 infections on the national vaccination schedule, nine vaccines are fully made in Russia. Two new factories were opened over 2014: Fort in Ryazan Oblast (it makes anti-flu vaccines for all people), and one in Kirov Oblast (it will make inactive vaccine against poliomyelitis, as well as 13-valent vaccine against pneumococcus).

Measures also continued in 2014 as part of reform of the healthcare system. A number of these measures will continue into 2015. Among the major ones are:

1. Increase in the total revenues of the compulsory medical insurance (CMI) Fund: in the amount of 1,632.3 billion roubles for 2015.
2. Higher subventions. 1,414.2 billion roubles in 2015, up 20% on 2014.
3. Increase in per-capita financial entitlements under the CMI base programme. In 2015 they will amount to 8,260.7 roubles, up 19% on the previous year.
4. Increase in the ambulance service allowance: the per call cost is now 1,710.1 roubles, up 202.7 roubles (+14%) on last year. The cost per hospitalization will be 22,233.1 roubles in 2015, up 16% on 2014.
5. Increase in the amount of additional funding (over and above CMI funds) for the provision of high-tech medical care (HMC) up to 82.1 billion roubles (up 60% on 2014).
6. 2015 will see continued reform in ambulance service. Hospitals with 400+ beds that receive at least 50 urgent patients within 24 hours will set up ambulance service functions. As pilot projects, such functions are already up and running in St Petersburg, Naberezhnye Chelny and Kazan.
7. Reduction in the number of health centres and hospitals in Moscow. According to the figures from the Public Health Department, Moscow is expected to receive 35 high-tech centres, with smaller branches around them. There will also remain in place facilities that are in the public interest, such as tuberculosis, infectious diseases and psychiatric hospitals. The reform got under way in 2014 by cutting the number of physicians at medical facilities, which caused an outcry from physicians and patients alike. In this context, the Moscow

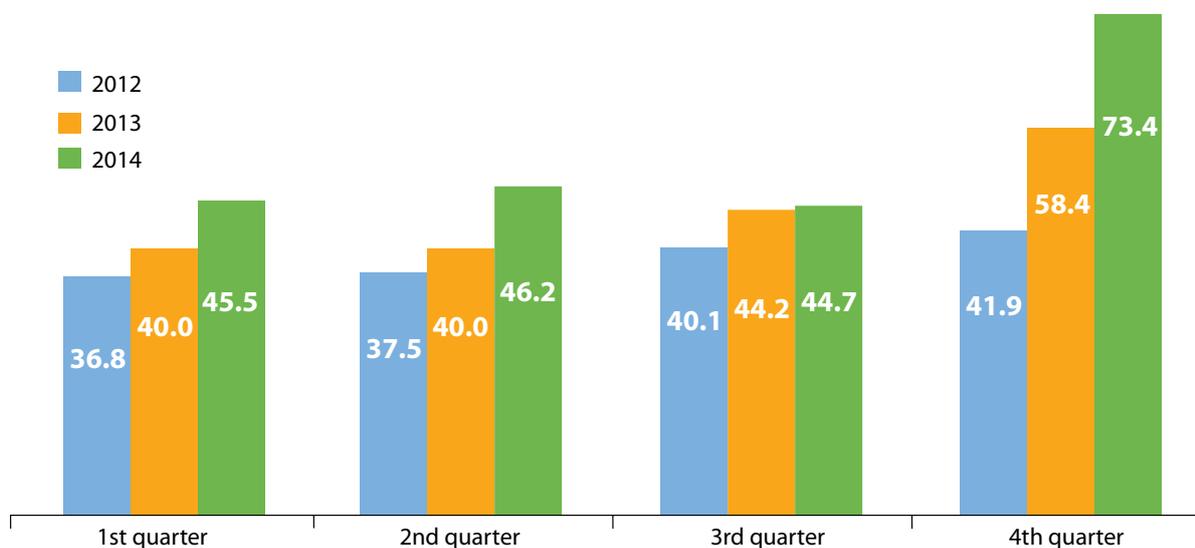
Government is putting in place a number of measures to ease the situation: an allocation of funds in the amount of 1.5 billion roubles for reskilling; additional severance benefits: e.g., a severance package worth 500 thou. roubles for a physician.

At year-end 2014, hospital procurement was up 14.8% in roubles (on 2013) to 209.8 bln roubles. By volume, 997.7 mln units of drugs were procured in 2014, up 4.2% on 2013. Note that the hospital procurement segment is the only segment in the pharma market that shows an upward trend in volume.

Worthy of a separate mention is the high growth of the segment, particularly in the 4th quarter of 2014. This trend is now in its second year. In 2013 hospital procurement also surged in the last quarter, but for a variety of reasons. While in October-December 2013 hospitals purchased in response to the new contracting procurement rules pursuant to law No 44-FZ, effective as of 1 January 2014. The uncertainty inherent in the tendering process made the stakeholders increase the number and scope of tenders held in the 4th quarter of 2013.

Figure 21

Dynamics of hospital procurement by quarter, bln rbl.



Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

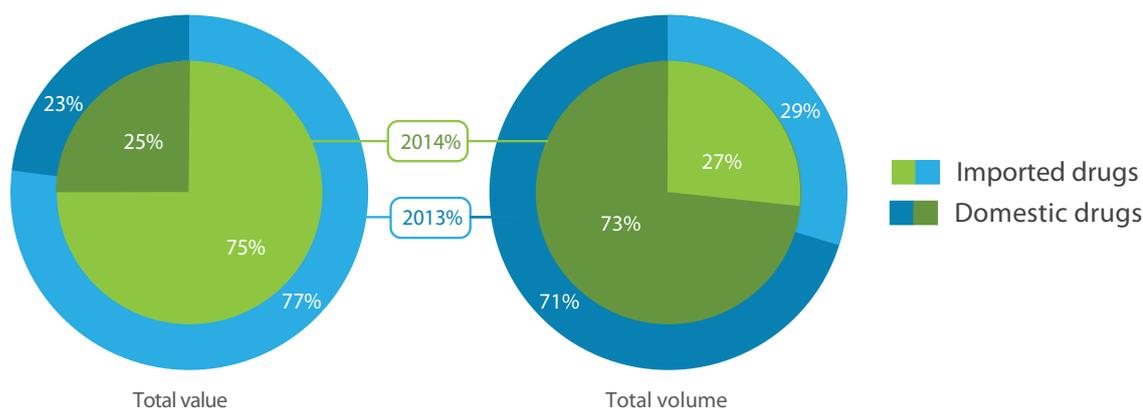
The increase in procurement in the 4th quarter of 2014 is due to economic factors only: high growth of forex rates [rouble weakening]. Hospital procurement was up on the 4th quarter of 2013 by 26% and 13% by value and volume respectively. This means that hospitals stocked up on medicinal drugs for the 1st quarter of 2015.

Let us review the key pharmacoeconomic indicators of the hospital procurement segment.

The per unit price of drugs purchased by Health Facilities (HFs) averaged 209 rbl. The per unit price across the Health Facility (HF) segment was up 10.3% on 2013.

Like the year before, imported products accounted for the bulk of Health Facility (HF) segment purchases by value, whereas domestic drugs were ahead by volume. Therefore, being cheaper, more domestic drugs are purchased than are imports by volume. Russian-made drugs account for about 25% of the purchases by value and 73% by volume. In 2014 the share of domestic drugs was up both by value and volume.

Balance between the sales of imported and domestic drugs



Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

The purchases of imported and domestic medicines in 2014 were up 12% and 23% in roubles respectively. By volume, the purchases of imported drugs were down 1%, while going up 6% for domestic drugs.

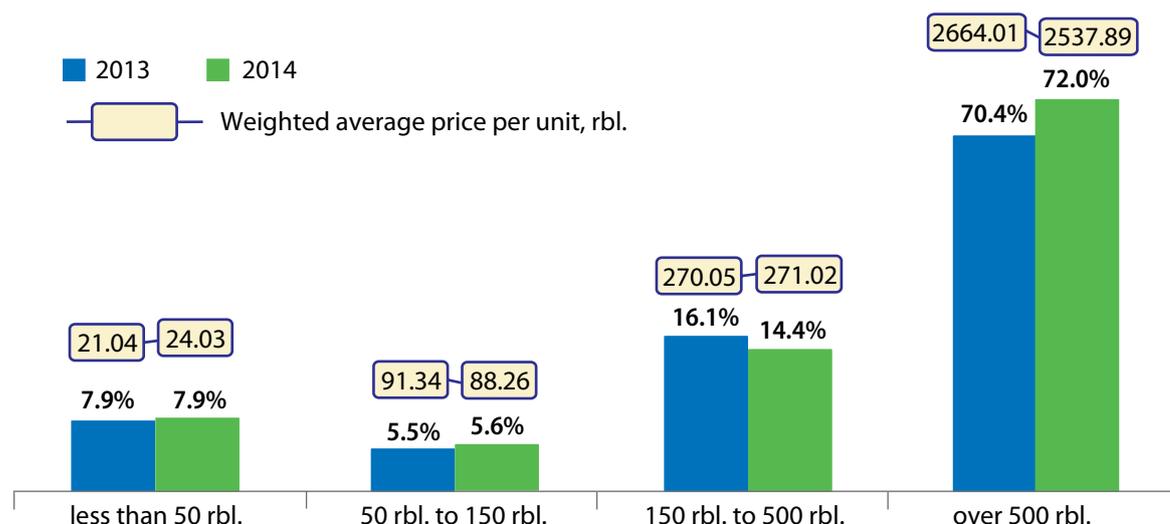
The per unit price of a foreign-made medicinal drugs is nearly 8 times higher than that of domestic drugs procured by Health Facility (HF). In 2014 the per unit price of imported and domestic drugs averaged 575 rbl. and 72 rbl. respectively. Compared with 2013, the per unit purchase price of foreign-made drugs rose by 13%, and one domestic unit cost hospitals 16% more in 2013.

The structure of Health Facility (HF) segment by price bracket is shown in Figure 23.

Dividing drugs by price bracket made it possible to ascertain that growth occurred in all price segments in 2014. It was at its lowest in the segment of 150 rbl. to 500 rbl., which pushed down the segment's share of the total purchases.

Figure 23

Structure of Health Facility (HF) segment by price bracket in 2013 and 2014



Source: DSM Group. ISO 9001:2008.

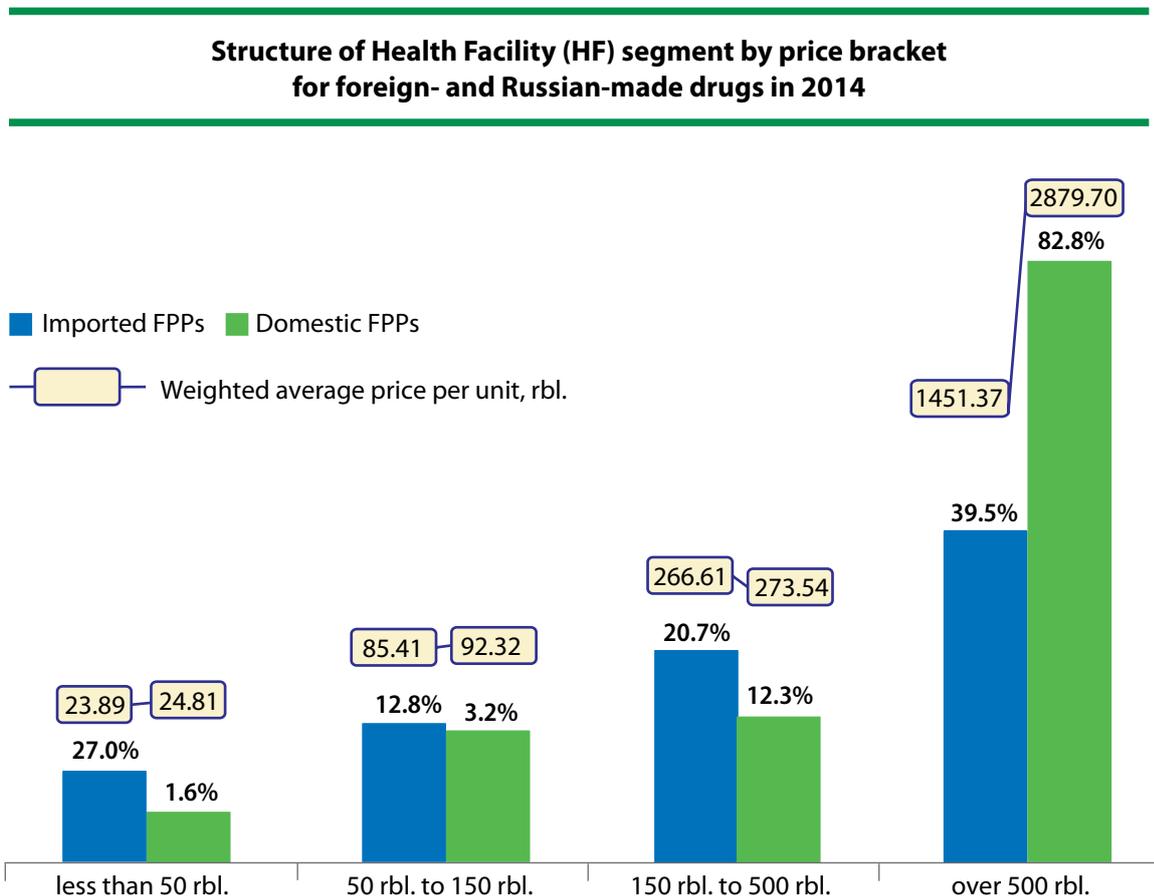
Note: the sales are in the ultimate prices incl. of VAT.

In this context, the segment of drugs priced above 500 rbl. remains the largest. In 2014 it accounted for about 72% of the total worth of the Health Facility (HF) sector and a mere 6% by volume. Note that the average per unit price in the segment of 500+ rbl. is about 2,538 rbl., which is nearly 12 times higher than the average price of all drugs in hospital procurement.

The largest by volume is still the segment of drugs priced up to 50 rbl. – its share is 69.5%. The reason is that hospitals buy large quantities of domestically made solutions of SODIUM CHLORIDES, GLUCOSE and CEFAZOLIN. These 3 brands account for about 30% of the total purchases of hospitals by volume.

As is evident from figure 24, the bulk of imported drugs fall in the segment of drugs in price bracket of 500+ rbl. (82.8%). Domestic drugs are divided nearly equally between the price brackets of less than 50 rbl. (27.0%) and of 150 to 500 rbl. (20.7%), with 12.8% in the segment of 50 to 150 rbl., and the highest sales, 39.5%, in the segment of over 500 rbl.

Figure 24



Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

While in the segments with the price per unit up to 500 roubles the difference between the weighted average price of imported and domestic drugs is not very noticeable, in the largest segment of 500+ roubles import medicines are nearly twice as expensive as domestic ones.

The balance between hospital procurement of drugs by ATC level 1 group in Russia at year-end 2014 is presented in table 12.

The ranking of medicinal drugs in the Health Facility (HF) segment by ATC group is quite dissimilar to the commercial market. The ranking of ATC groups is the same as in 2013. In hospital procurement, the unchallenged leader is group [J], Antibacterial drugs for systemic use. This group has been showing an upward trend since 2012 (+19% in roubles in 2014). This being the case, the group's share has been increasing, exceeding 35% in 2014.

Until 2014, the group's growth was fuelled mostly by the increase in the sales of antivirals;

in 2014, the sales of group [J] grew due for the most part to higher hospital procurement of the Antimycobacterials subgroup [J04] (+49% in rbl.). The increase in procurement of subgroup [J04] involved mostly the drugs of the group Aminosalicylic Acid , such as SODIUM PARAMINOSALICYLATE, PASK [para-aminosalicylic acid, PAS] and others.

The unchallenged leaders of group [J], subgroup [J05], Antivirals for systemic use, and [J01], Antimicrobials for systemic use, increased their value sales only slightly: +2.5% and +6.6% on 2013. In this context, the volume sales of drugs in group [J01], Antimicrobials for systemic use, were down 4.5%. However [J05], Antivirals for systemic use, kept their growth rates, increasing consumption by 9.2%.

A reduction in the purchases of subgroup [J01] was due to a decline in the sales of the best seller of recent years, the brand CEFTRIAXONE (-20% by volume). This being the case, the brand has kept its upward trend in roubles, increasing its sales by 19.9%.

The fastest growing in 2014 were the drugs CEFOTAXIME (+86% by value) and CEFOGRAM (+147% by volume).

In subgroup [J05], Antivirals for systemic use, among the largest brands the drugs PREZISTA (+19% by value), KIVEXA (+57% by value) ensured the group's growth, whereas the best seller by value in antivirals, the brand KALETRA was down in sales by 9% and 6% by value and volume respectively.

2014 saw continued growth of the smallest subgroups of ATC group [J]: a surge of drugs from group [J06], Immune sera and immunoglobulins (+15% by value), and marginal growth in [J02], Antimycotics for systemic use (+2% by value).

In subgroup [J06], Immune sera and immunoglobulins, the 2014 leader, PENTAGLOBIN, consolidated its position, having increased sales 12% by value and 11% by volume. Number two in the ranking of the brands of the subgroup in 2014, the brand SYNAGIS, hardly increased its sales and slid 3 spots down, losing ground to the drugs OCTAGAM (+32% by value) and IMMUNOGLOBULIN (+26% by value).

The 2013 best sellers in subgroup [J02], Antimycotics for systemic use, CANCIDAS and VFEND, were down in sales, ceding the top spots to the brand MYCAMINE (+26% by value).

Structure of hospital procurement of drugs by ATC group in 2014

ATC level 1 group	Total value, mln rbl.	Group's share of total worth, %	Total volume, mln. u.	Group's share of physical quantity, %
[J] ANTIBACTERIAL DRUGS FOR SYSTEMIC USE	73,902.3	35.2%	289.3	29.0%
[B] DRUGS AFFECTING HEMATOGENESIS AND BLOOD	34,362.9	16.4%	325.6	32.6%
[L] ANTINEOPLASTIC AND IMMUNOMODULATING AGENTS	29,941.7	14.3%	10.3	1.0%
[N] DRUGS FOR THE TREATMENT OF NERVOUS DISORDERS	18,654.6	8.9%	96.4	9.7%
[A] ALIMENTARY TRACT AND METABOLISM	15,377.2	7.3%	81.7	8.2%
[V] OTHER DRUGS	9,013.8	4.3%	11.6	1.2%
[C] DRUGS FOR THE TREATMENT OF CARDIOVASCULAR DISEASES	7,568.4	3.6%	50.7	5.1%
[R] DRUGS FOR THE TREATMENT OF RESPIRATORY DISEASES	5,615.6	2.7%	32.0	3.2%
[M] DRUGS FOR THE TREATMENT OF MUSCULOSKELETAL DISORDERS	4,741.9	2.3%	21.9	2.2%
[G] DRUGS FOR THE TREATMENT OF UROGENITAL DISEASES AND SEX HORMONES	3,266.1	1.6%	4.7	0.5%
[H] HORMONAL DRUGS FOR SYSTEMIC USE (EXCLUDING SEX HORMONES)	2,454.8	1.2%	14.5	1.5%
[S] DRUGS FOR THE TREATMENT OF SENSORY PROCESSING DISORDERS	2,025.4	1.0%	6.6	0.7%
[D] DRUGS FOR THE TREATMENT OF SKIN DISEASES	1,860.2	0.9%	50.0	5.0%
[~] MDs without an ATC classification	976.5	0.5%	2.0	0.2%
[P] ANTIPARASITIC DRUGS, INSECTICIDES AND REPELLENTS	47.2	0.0%	0.4	0.0%

Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

Just as in recent years, the second place in the ranking of ATC groups in the hospital segment at year-end 2014 is occupied by group [B], Drugs affecting hematogenesis and blood. Compared with 2013, the subgroup shows positive trends: the purchase volume of drugs in this group is up 3% (in 2012-2013 the volume went down). The rate of growth of Health Facility (HF) spending on «Drugs affecting hematogenesis and blood» remained at the 2013 level - 7%.

The increase in the sales of group [B] was for the most part due to the higher procurement in subgroup [B03], Antianemic preparations (+11% by value). The most purchased drug is still SODIUM CHLORIDE, which increased its sales on 2013 (+18%) by value and (+5%) by volume.

Group [L], Antineoplastic and immunomodulating agents, is third in the ranking by sales value and 11th by volume (down 1 spot in the ranking). Compared to the previous year, purchases of drugs in this group are up 16% by value and down by volume (-4%). The largest subgroup is still [L01], Antineoplastic agents, whose share is 67% of the subgroup's total sales. By value, procurement is led by drugs based on TRASTUZUMAB (INN), with the situation here changing every year; by volume,

however, in 2014, just as in recent years, the first spot in group [L] is occupied by antineoplastic agents, CYCLOPHOSPHAMIDE INN, with a share of about 20%, which are noted for their low price (about 55 rbl. per unit).

Table 12 presents the top 20 manufacturers in the Health Facility (HF) segment at year-end 2014.

Table 12

Top 20 manufacturers in the Health Facility (HF) segment at year-end 2014					
Ranking 2014	Change	Manufacturer	Total value, mln rbl. 2014	Total value increase	Share
1	1	SANOFI	9,587.6	-1.9%	4.6%
2	2	GLAXOSMITHKLINE	9,108.7	10.7%	4.3%
3	-1	ABBOTT	8,852.6	-4.5%	4.2%
4	-1	F.HOFFMANN-LA ROCHE	8,805.0	5.5%	4.2%
5	0	TAKEDA	8,293.0	11.2%	4.0%
6	0	Merck & Co. Inc	6,983.3	-2.8%	3.3%
7	1	JOHNSON & JOHNSON	6,608.6	16.9%	3.1%
8	-1	NOVARTIS	6,287.4	6.0%	3.0%
9	0	BAYER	4,760.2	-4.6%	2.3%
10	-1	ASTRAZENECA	4,725.9	13.7%	2.3%
11	0	BRISTOL-MYERS SQUIBB	3,540.2	-1.5%	1.7%
12	0	PFIZER	3,424.0	2.8%	1.6%
13	0	BOEHRINGER INGELHEIM	3,319.7	16.9%	1.6%
14	4	BAXTER HEALTHCARE	2,900.8	13.1%	1.4%
15	5	VEROFARM	2,815.4	22.1%	1.3%
16	0	MICROGEN	2,517.9	-3.7%	1.2%
17	-2	TEVA	2,477.3	-11.3%	1.2%
18	-1	BERLIN-CHEMIE	2,361.0	-8.9%	1.1%
19	9	SYNTEZ AKO	2,310.6	38.9%	1.1%
20	6	KRASFARMA	2,228.6	24.2%	1.1%

Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

Despite the fact that the company SANOFI posted lower sales by value (-1.9%), it succeeded in keeping its lead, which it captured in 2013. In hanging on to its first spot in the ranking, SANOFI was helped by brands such as ESSENTIALE (+54%) and LANTUS (+23%).

In recapturing lost ground, the company GLAXOSMITHKLINE rose in 2014 two notches, losing to the leader by less than one per cent. The company's higher sales were achieved by, among others, an antiviral [HIV] drug, KIVEXA (+57%), which was the best seller in the company's hospital portfolio at year-end 2014.

In third spot is the company ABBOTT, which had been consistently increasing sales since 2011, making it all the way from 9th place to the top three. The hospital procurement leader in the company's product portfolio is still a drug for the treatment of HIV infection, KALETRA, whose purchases were down 9% by value compared to the previous year.

One of the positive changes in the ranking of manufacturers is the appearance of two domestic manufacturers: SINTEZ AKO and KRASFARMA. The company SINTEZ rose 9 spots in the ranking, having increasing its sales by 38.9% on 2013 – this is the highest growth rate in the top 20 manufacturers. Among the company's best-selling drugs, the largest contribution to higher sales was made by the nonsteroidal anti-inflammatory drug KETOPROFEN (+507%) and a drug for the treatment of nervous system, ETHOXIDOL (+248%).

The manufacturer KRASFARMA increased its value sales by 24% with the drugs CEFTRIAXONE (+600%) and AMOXICILLIN/CLAVULANIC ACID (+185%).

The greatest drop in purchases on 2013 is recorded for the company TEVA (-11%), which lost two notches in the ranking, sliding to 17th place. Among the top ten in terms of purchases of drugs in the company's hospital portfolio, only three brands (OXALIPLATIN LACHEMA, (BUDENIT STERI-NEB and AMBROBENE) posted a major growth; the others either lost sales or reported slight gains.

Table 13 presents the top 20 brands in the Health Facility (HF) segment at year-end 2014.

Table 13

Top 20 brands in the Health Facility (HF) segment at year-end 2014

Ranking 2014	Change	Brand name	Total value, mln rbl. 2014	Total value increase	Share
1	1	SODIUM CHLORIDE	5,773.3	2.8%	17.7%
2	-1	KALETRA	5,173.7	2.5%	-8.6%
3	0	PREZISTA	2,956.3	1.5%	19.4%
4	3	VACCINE	2,556.6	1.3%	32.1%
5	-1	CLEXANE	2,387.4	1.2%	1.9%
6	3	HERCEPTIN	2,295.2	1.1%	32.1%
7	-2	REYATAZ	2,184.0	1.1%	0.1%
8	0	ISENTRESS	1,934.0	1.0%	2.1%
9	-3	ULTRAVIST	1,844.9	0.9%	-4.9%
10	12	KIVEXA	1,833.1	0.9%	56.7%
11	-1	CUROSURF	1,826.3	0.9%	12.9%
12	1	CEFTRIAXONE	1,688.4	0.8%	19.9%
13	10	MEROPENEM	1,622.7	0.8%	43.3%
14	0	AVASTIN	1,578.8	0.8%	12.2%
15	-4	GLUCOSE	1,558.8	0.8%	6.2%
16	-4	ACTOVEGIN	1,417.1	0.7%	0.7%
17	-1	FRAXIPARINE	1,396.8	0.7%	7.1%
18	-1	HEPARIN	1,329.9	0.7%	9.6%
19	-1	LUCENTIS	1,307.7	0.6%	9.1%
20	-5	PEGASYS	1,292.4	0.6%	-3.2%

Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate prices incl. of VAT.

In 2014 the brand SODIUM CHLORIDE recaptured first place, which it lost in 2013 for the first time in a few years. Last year's leader, a brand for the treatment of HIV-infections, KALETRA, made by ABBOTT, was down in sales by 9%, sliding to second spot.

In third place, just as last year, is a drug for the treatment of HIV infection, PREZISTA from JOHNSON & JOHNSON, which has been part of the leading troika for two years now.

The top 20 brands' share of hospital purchases is about 23%, just as in previous years. What is more, the ranking sees both expensive imported drugs and cheap domestic drugs (SODIUM CHLORIDE, GLUCOSE and CEFTRIAXONE).

Compared with 2013, the 2014 ranking has two new brands, including a treatment for HIV infection, KIVEXA (+57%), and a treatment for inflammatory infections, MEROPENEM (+43%).

5. Nutritional Supplements

In the pharmacy sales, biologically active dietary supplements account for 5%; this is the largest segment of non-medicinal products. Nutritional Supplements are used in this country on a regular basis by only 2% of the population, with 22% more doing this from time to time (according to the figures from VTsIOM [Russian Public Opinion Research Centre (RPORC)] published in 2013). At the same time, in Western Europe and the USA more than 50% of the population use supplements regularly; in Japan, the nation with the highest life expectancy, this figure approaches 90%.

In 2014 the Nutritional Supplements market was under the magnifying glass of legislative authorities. E.g., the major stumbling blocks for the Russian Nutritional Supplements market are deceptive advertising, counterfeit products and inadequate legislative framework. Some issues were resolved, with the market steered into a more positive direction and regularized.

Safeguards were put in place in 2013 against deceptive advertising. This being the case, it was significantly down in 2014. Note that advertising is the main marketing tool for the promotion of Nutritional Supplements. It is no coincidence that leading manufacturers of biologically active dietary supplements are featured in the ranking of top advertisers in Russia. The company EVALAR is in 13th place (according to the figures from TNS Russia, 2014), demonstrating one of the greatest gains in terms of advertising volume. Among brands, EVALAR is listed in the top 6 TV-promoted brands.

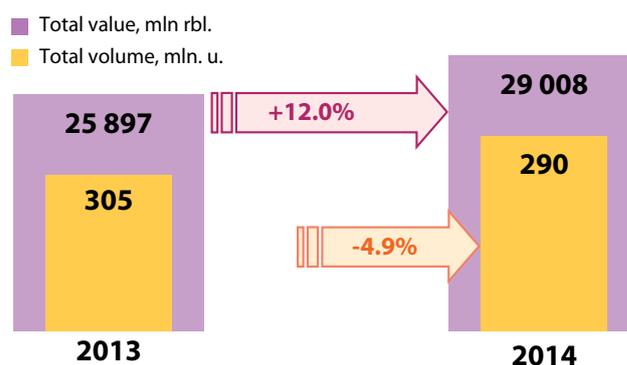
In January 2015 was the effective date of last year's wall-to-wall discussed Federal Law of 31.12.2014, No 532-FZ, On amending certain legislative acts of the Russian Federation to prevent commerce in fake, counterfeit, substandard and unregistered medicinal products, medical products and counterfeit biologically active dietary supplements. This law imposes harsher criminal and administrative punishments for dealing in counterfeit Nutritional Supplements. The law also introduces a new notion of counterfeit biologically active dietary supplements containing prohibited components, such as counterfeit biologically active dietary supplements comprising intentionally introduced ingredients banned by the RF and Customs Union legislation for use in biologically active dietary supplements. Stricter punishments are provided for manufacturers and distributors of such categories of counterfeit Nutritional Supplements in the form of fines (to 5 mln roubles) or imprisonment (up to 12 years) for wrongdoings that are more serious (as well as for crimes involving commerce in counterfeit medicines).

It would not be amiss to note that in an effort to control the quality of Nutritional Supplements in the stream of commerce, there was set up at the beginning of 2014 a self-regulatory organization (SRO) called Association of Nutritional Supplements Manufacturers Not-for-Profit Partnership. The organization's mission includes the formation of an industry expert organization, achievement of balance between the interests of the industry, the nation and consumers, as well as harmonization of regulation and integration of the Russian Nutritional Supplements market into the global market. In the Russian market, this is the only organization that represents Nutritional Supplements manufacturers. E.g., in late January 2015 the SRO signed an agreement with FAS [Federal Anti-monopoly Service] on coordination between entities, which implies the adoption of standards for the production of biologically active dietary supplements and business ethics rules

A major problem for the oversight of the Nutritional Supplements market is the risks of trade name confusion — a phenomenon that has become endemic in this segment (there are now some 30 different Nutritional Supplements with the identical name). This practice is on the rise expand and has even become a means of promoting medicinal drugs through food supplements.

In 2014 pharmacies distributed about 290 mln units of Nutritional Supplements with a total value of about 29 bln rbl. in wholesale prices and 40.6 bln rbl. in retail prices. The increase by value was 12%; by volume, the Nutritional Supplements market was down (-4.9%). The Nutritional Supplements price per reference unit in 2014 was 140 rbl. (in retail prices) or about 100 rbl. (in the distributor's prices for pharmacies), up 18% on 2013.

Nutritional Supplements sales in Russia in 2013-2014



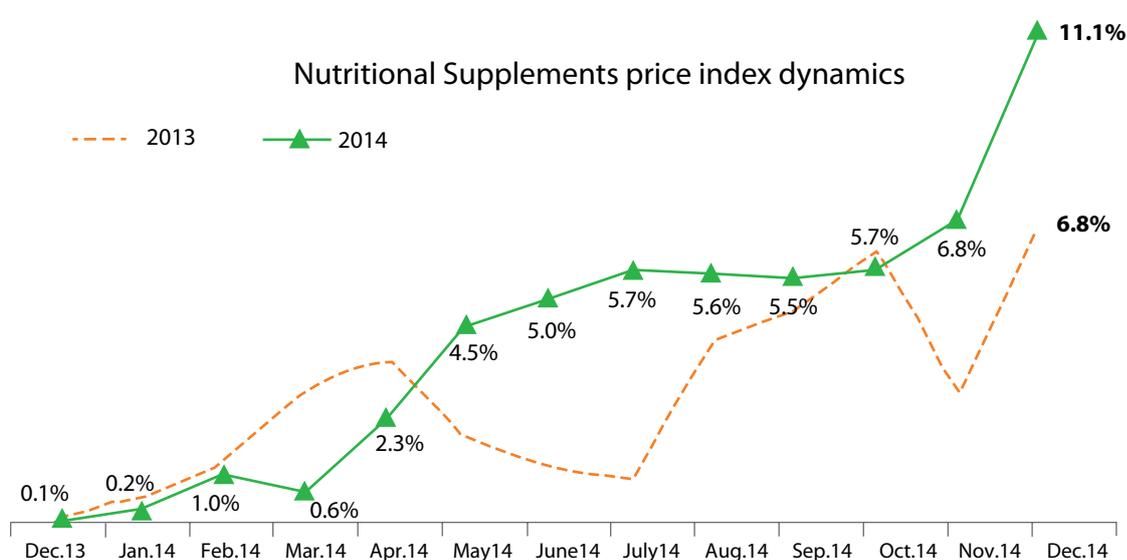
Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Note: the sales are in pharmacy cost prices incl. of VAT.

The dynamics of Nutritional Supplements prices was analyzed using the Laspeyres price index.

Figure 26

Nutritional Supplements price change in the commercial pharma retail market of Russia for 2014



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. QMS meets the requirements of ISO 9001:2008

According to the Laspeyres index, Nutritional Supplements rouble prices were up 11.1% in 2014 on 2013, a nearly 2-fold increase. Moreover, whilst up to November 2014 inflation was within the 2013 range, the Nutritional Supplements prices went up 4.3% over December 2014. Such growth is due to skyrocketing exchange rates and the resulting price hikes on all product categories.

Unlike the pharmaceutical market, which is dominated by foreign-made products, in the Nutritional Supplements market the situation is the reverse: Russian-made Nutritional Supplements account for 58% of the value and 81% of the volume of sales. Note that the share of domestic manufacturers was down 5%; this is due to a lower share of manufacturers such as EVALAR, ALTAI-PHARM, and DIOD etc. Please note also that recent years have seen a number of acquisitions of domestic Nutritional Supplements manufacturers by foreign manufacturers. The company VALEANT acquired the brands of biologically active dietary supplements from the company ECOMIR. RUSFIC

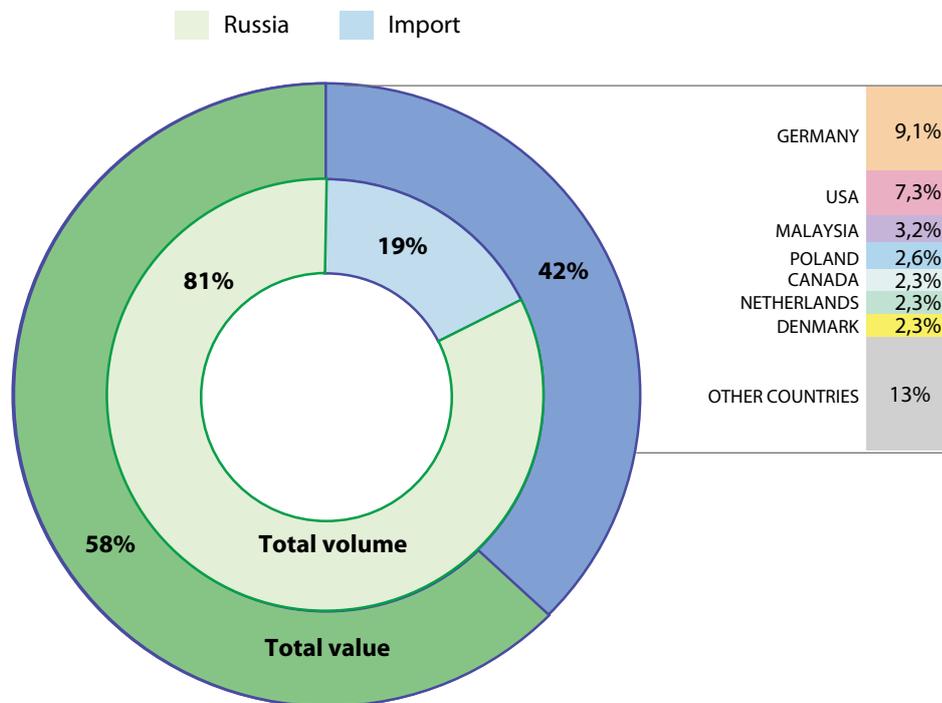
GROUP, a Russian arm of an Italian manufacturer, RECORDATI, has in its portfolio major Nutritional Supplements brands that were previously owned by AKVION. These deals increased the presence of foreign companies in the Russian market to 46.5%.

Leading among foreign manufacturers are Nutritional Supplements made in Germany (22%), the USA (17%) and Malaysia (8%). The list of German manufacturers is headed by QUEISSER PHARMA GmbH & CO.KG (DOPPELHERZ family of Nutritional Supplements); among the US brands, the most popular are products of the company's SOLGAR VITAMIN AND HERB (SOLGAR family of Nutritional Supplements). Among Malaysia's manufacturers leads the company POLENS (M) SDN BHD (TONGKAT Nutritional Supplements, which affects the reproductive system).

Note that in 2014 the share of foreign manufacturers continued to grow by value, reaching 42% from 33% in 2012. The brands of foreign manufacturers in 2014 grew faster than Russian-made products. E.g., in the top 10 brands that were the biggest market growth drivers, 8 brands are of foreign origin. In aggregate, their growth accounts for 8% (out of 11.1%) of the total Nutritional Supplements market growth. The main growth driver of the share of imported drugs were the following brands: VITAMISHKI, SOLGAR and SUPRADYN; the sales of the last two drugs doubled. VITAMISHKI (made by PHARMA-MED) were up in sales by more than 13 times due to the expansion of the product line and energetic promotion.

Figure 27

Balance between the sales of domestic and foreign-made Nutritional Supplements, broken down by country



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Note: the sales are in pharmacy cost prices incl. of VAT.

Just as in the pharmaceutical market, imports are more expensive than domestic Nutritional Supplements: the per unit price of foreign-made and domestic Nutritional Supplements was 218 and 72 rub. respectively. In 2014 domestic Nutritional Supplements went up in price less (+11%) than imports (+22%).

Let us review the top 20 manufacturers of Nutritional Supplements (tab. 14). The top 20 companies account for about 67% of the market by value.

The ranking of Nutritional Supplements manufacturers in recent years has been headed by a domestic manufacturer, EVALAR, whose output accounts for about 17% of all pharmacy sales of Nutritional Supplements by value. In the last 2 years, the company has been showing a downward trend in value sales, which pushes down the manufacturer's share of the market. Such dynamics is caused by lower sales of brands such as TURBOSLIM, OVESOL and CHERNIKA [Bilberry]-FORTE.

Top 20 Nutritional Supplements manufacturers in Russia in 2014

Ranking 2014	Change	Manufacturer	Total value, mln rbl. 2014	Total value increase	Share
1	0	IVALAR	4,822.1	-2.1%	16.6%
2	0	RIA PANDA	3,180.4	14.2%	11.0%
3	2	PHARMA-MED	1,272.2	59.1%	4.4%
4	-1	VALEANT	995.6	-4.2%	3.4%
5	1	POLENS (M) SDN BHD	920.1	21.8%	3.2%
6	6	SOLGAR VITAMIN AND HERB	880.2	96.1%	3.0%
7	0	QUEISSER PHARMA	855.0	23.8%	2.9%
8	-4	RUSFIC GROUP	829.5	-7.9%	2.9%
9	1	POLARIS	659.7	29.2%	2.3%
10	-2	DIOD	646.6	-1.4%	2.2%
11	4	BAYER	617.7	97.0%	2.1%
12	-3	FERROSAN	605.9	14.6%	2.1%
13	9	MERK SELBSTMEDIKATION	466.0	114.5%	1.6%
14	-3	FARM-PRO	463.4	3.0%	1.6%
15	-2	ECOFARMINVEST	456.6	11.3%	1.6%
16	-2	FARMSTANDART	428.0	4.4%	1.5%
17	0	POLPHARMA	419.1	45.5%	1.4%
18	20	NOVARTIS	270.1	147.7%	0.9%
19	2	GENEXO	269.9	15.9%	0.9%
20	0	BIOKOR	261.7	6.9%	0.9%

Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Note: the sales are in pharmacy cost prices incl. of VAT.

RIA-PANDA is in 2 spot with a safe margin, increasing its lead on the closest rivals every year. In 2014 the company's growth was 14%, due to such items such as SEALEX FORTE and ALI CAPS - two products designed for the correction of male irregularities - which delivered 36% of the company's growth.

As already described above, foreign makers grow at a higher pace than domestically made products. Virtually all of them show a two-digit gain. Thanks to the high growth of the VITAMISHKI brand, the company PHARMA-MED rose from 5th place and made the top 3 manufacturers.

The largest movement in the top 20 is demonstrated by the company NOVARTIS (+20 spots), which ended up in 18th place. The 2.5% increase in the company's sales is due to the roll-out of LINEX FOR CHILDREN, the children's form of the company's famous product LINEX, registered as a Nutritional Supplements.

High growth rates are also demonstrated by the company MERK SELBSTMEDIKATION (up 9 spots in the ranking), fuelled by the two-fold growth of their brand FEMIBION, a vitamin and mineral complex for the pregnant.

Apart from companies that grow organically, the ranking also features new names, which appeared, as already described above, through the acquisition of domestic manufacturers or their brands.

Thus, in fourth place with a share of 3.4% is VALEANT, the company that combined the products NATUR PRODUCT and ECOMIR. Taken together, the sales grew less than specific gains reported by the companies. This is due to the optimization of the portfolios of both companies. The leading brands NATURINO and NATURETTO (used to be owned by NATUR PRODUCT) posted negative growth. However, the brands previously owned by ECOMIR - ESTROVEL and LUTEIN COMPLEX - show high sales growth.

The second newcomer is RUSFIC GROUP, which has been holding AKVION brands since 2013. Note that AKVION was in the top three. At year-end 2014, the sales of the brands transferred to RUSFIC GROUP were down 8%, and the company only rose to 8th spot in the ranking. The main factor that drove down sales was the brand ALFAVIT – its sales were down 9% because the segment of children’s vitamin complexes is seeing high competition.

The top 20 brands account for 42% of the market. The leader in the ranking at year-end 2014 is SEALEX FORTE (RIA PANDA), which overtook the leader of past years, the slimming line TURBOSLIM (EVALAR). Third place is also held by RIA PANDA’s brand, ALI CAPS.

Table 15

Top 20 best-selling Nutritional Supplements brands in Russia in 2014

Ranking 2014	Change	Brand	Firm	Total value, mln rbl. 2014	Total value increase	Share
1	1	SEALEX FORTE	RIA PANDA	1,621.3	19.0%	5.6%
2	-1	TURBOSLIM	EVALAR	1,185.0	-19.5%	4.1%
3	0	ALI CAPS	RIA PANDA	1,068.1	16.5%	3.7%
4	5	SOLGAR	SOLGAR VITAMIN AND HERB	873.9	96.0%	3.0%
5	0	DOPPELHERZ	QUEISSER PHARMA	855.0	23.8%	2.9%
6	-2	FITOLAX	EVALAR	750.4	7.1%	2.6%
7	-1	TONGKAT	POLENS (M) SDN BHD	648.9	0.5%	2.2%
8	0	REDUKSIN LIGHT	POLYARIS	645.4	27.5%	2.2%
9	4	SUPRADYN	BAYER	617.7	97.0%	2.1%
10	132	VITAMISHKI	PHARMA-MED	481.0	1264.5%	1.7%
11	-4	ALFAVIT	RUSFIC GROUP	468.1	-9.4%	1.6%
12	9	FEMIBION	MERK SELBSTMEDIKATION	466.0	114.6%	1.6%
13	-3	HEMATOGEN	Miscellaneous	402.7	-1.2%	1.4%
14	0	NORMOBACT	POLPHARMA	386.1	39.4%	1.3%
15	-3	INDINOL	ECOPHARMINVEST	345.3	9.3%	1.0%
16	0	BIFIFORM	FERROSAN	297.0	9.7%	1.0%
17	-2	PUSTURNIK [MOTHERWORT]	Miscellaneous	295.7	9.1%	1.0%
18	-7	OVESOL	EVALAR	294.5	-12.1%	1.0%
19	-2	MEN’S FORMULA	PHARMA-MED	289.5	17.4%	1.0%
20	-2	MAKSILAK	GENEXO	269.9	15.9%	0.9%

Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Note: the sales are in pharmacy cost prices incl. of VAT.

The largest gain in sales among the top 20 brands was shown by VITAMISHKI, FEMIBION and the SOLGAR product line (already described above). A large sales gain was also recorded for the brand SUPRADYN at 97%, enabling the product to move up to 4th spot (the company BAYER expanded the children’s line of vitamin complex).

Only one item disappeared from the ranking - NATURINO, with a drop in sales of 33%.

Among possible entrants to the top 20 ranking at year-end 2015 should be named the drug LOVELAS [Lovelace] (made by POLENS (M) SDN BHD, whose purpose is evident from its name, sales up 3 times) and LINEX FOR CHILDREN mentioned above. The drugs claimed 21st and 23rd place respectively.

Nutritional Supplements are promoted by manufacturers as prophylactics and/or treatments for a variety of diseases. It is not very convenient to use the existing official classification for assessing the Nutritional Supplements market – many Nutritional Supplements used as a prophylactic/treatment for the same diseases are classified differently (for example, drugs improving eyesight). That is why DSM Group experts developed their own Nutritional Supplements classification, which gives a more adequate picture of the present-day Nutritional Supplements market. Nutritional Supplements classification comprises 17-rm sections, a majority of which have a 2nd sublevel, and some sections a 3rd one.

A Nutritional Supplements sales ranking as per classification sections is presented in the table.

Table 16

Sales ranking by Nutritional Supplements classification section at year-end 2014					
It. No.	Nutritional Supplements list section	Total value, mln rbl.	Increase on 2014	Group share, %	Section leader
1	V SYSTEMIC BADSs	6,663.5	20.2%	23.0%	SUPRADIN
2	G REPRODUCTIVE BADSs	6,618.6	13.9%	22.8%	SEALEX FORTE
3	A DIGESTIVE BADSs	4,763.5	13.2%	16.4%	FITOLAX
4	W SLIMMING AND CLEANSING BADSs	2,757.0	-3.6%	9.5%	TURBOSLIM
5	N NERVOUS SYSTEM BADSs	1,937.9	7.4%	6.7%	ПУСТЫРНИК
6	C CARDIOVASCULAR BADSs	1,472.0	5.6%	5.1%	CAPILAR
7	S SENSORY SYSTEM BADSs	1,037.1	5.0%	3.6%	OCUWHITE
8	D SKIN AND HAIR TREATMENT BADSs	800.8	11.5%	2.8%	INNEOV
9	M SKELETAL SYSTEM BADSs	674.6	3.7%	2.3%	HONDA
10	B BLOOD-FORMING SYSTEM BADSs	550.9	1.8%	1.9%	HEMATOGEN
11	R RESPIRATORY SYSTEM BADS	489.8	6.5%	1.7%	DOCTOR THEISS DROPS
12	I IMMUNE SYSTEM BADSs	453.9	94.5%	1.6%	VITAMISHKI
13	U URINARY SYSTEM BADSs	257.3	16.5%	0.9%	PROLYT
14	H ENDOCRINE BADSs	228.2	19.5%	0.8%	ENDOCRINOL
15	T ANTI-POISON AND ANTI-INTOXICATION BADSs	210.3	-4.2%	0.7%	WHITE CARBON
16	O BADSs FOR THE TREATMENT AND PROPHYLACTIC OF CANCERS (OTHER THAN REPRODUCTIVE CANCERS)	59.0	18.6%	0.2%	PROMISAN
17	V J BADSs FOR VIRAL, BACTERIAL AND FUNGAL DISEASES	18.9	569.1%	0.1%	ПОМАШКА

Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

At year-end 2014, a Nutritional Supplements ranking by level 1 of DSM classification was headed by group [V], SYSTEMIC Nutritional Supplements, with a share of 23%, which comprises vitamins and general tonics. Second place is held by group [G], REPRODUCTIVE Nutritional Supplements (22.8%). The top three are completed by group [A], DIGESTIVE Nutritional Supplements (16.4%).

The largest gain (+95%) was captured by the group of IMMUNE SYSTEM Nutritional Supplements (group [I], which also includes vitamin complexes) and the small group of Nutritional

Supplements FOR VIRAL, BACTERIAL AND FUNGAL DISEASES (up 6 times thanks to the CAMOMILE tea line from PHARM-PRODUCT).

A negative growth is shown by one group only: [W], SLIMMING AND CLEANSING Nutritional Supplements (-3.6%) The drop in sales is due to lower volumes of its No 1 (TURBOSLIM).

In conclusion, one would like to state once again that in 2014 the market of pharmacy-sold Nutritional Supplements is already affected by the downturn in this country. And although the market has grown by value, demand by volume is down to the 2010 level.

2015 will see continued intensification of competition in the Nutritional Supplements market. The market has started to see supplements of the foreign manufacturers that arrived in Russia after Russia's accession to the WTO. While 2013 saw 130 new brands of foreign manufacturers, 2014 witnessed as many as 230 new brands being distributed through the pharmacy network. Since 1 January 2015 there have been in place the regulations of the Eurasian Economic Union. First and foremost this naturally means standard requirements for products such as biologically active dietary supplements within all participating states. On the other hand, the market will see biologically active dietary supplements from Customs Union members, which will also drive up competition.

As a category of health products, Nutritional Supplements are among the most vulnerable in a down economy. That is why 2015 can be expected to see a lower demand for this group of goods.

6. Cosmetics

Awareness and knowledge of pharmacy shoppers in this country increases from year to year. This fully applies to non-medicinal products. This is also due to a growing volume of information in the public domain and to aggressive promotion by companies seeking to sell their products through pharmacies.

In this regard, cosmetics companies are probably the most active. After all, the segment of pharmacy cosmetics is one of most promising sectors of the pharmaceutical market. Its growth prospects have few constraints unlike for medicines whose regulated prices cut into pharmacies' profit margins. Moreover, there is a year-on-year increase in the numbers of shoppers who come to the pharmacy to buy not some medication but a cosmetic product for a specific problem. An expansion of their cosmetic line enables pharmacies not only to make more money, but also to bring in more customers. Therefore, all those involved in the distribution of pharmacy cosmetics would like to see this market segment grow. This results in the opening of so-called beauty studios and skin care departments as part of major pharmacy chains.

Let us review the situation in the segment of pharmacy cosmetics in figures.

At year-end 2014, pharmacy cosmetics is ranked third (after medicines and Nutritional Supplements) in pharmacy sales mix and first within parapharmaceutical product groups. The share of this segment is 4% of the total pharmacy sales and about 20% of the total sales of parapharmaceutical goods.

The sales of pharmacy cosmetics in 2014 reached nearly 25 bln rbl. or 184 mln units.

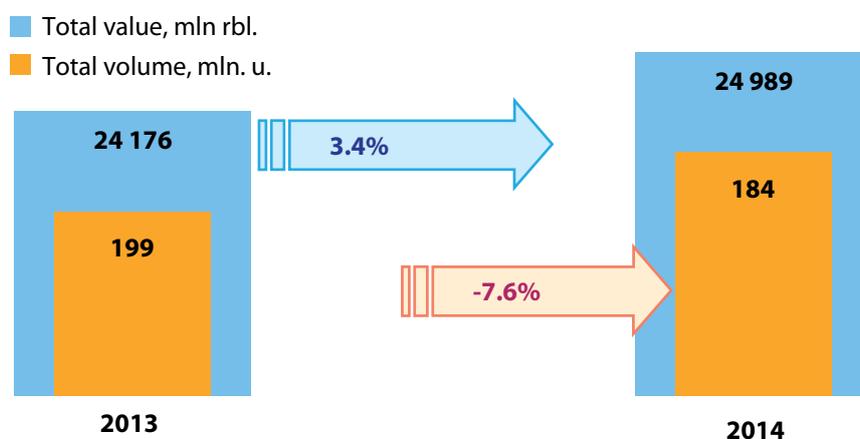
At year-end 2014 the market of pharmacy cosmetics slowed its growth. The effect of purchasing power decline was noticeable as early as the latter half of the year: e.g., the sales of cosmetics at pharmacies in the latter six months of 2014 were up a mere 1.2% on the same period last year, whereas in the first six months the market showed a 5.5% increase in demand on the 1st six months of 2013. Normally, the pharmacy cosmetics market is one of the most vulnerable sectors of parapharmaceutical mix during a downturn.

Gains in the sales of pharmacy cosmetics at last year-end were markedly lower than those in the sales of medicines and Nutritional Supplements, which is also an indication of a slowdown in market growth. The slowdown by value was coupled with a reduction in pharmacies' volume sales of cosmetics.

At year-end 2014, the growth in sales of pharmacy cosmetics by value was 3.4%; for comparison, 2013 saw a 7.8% rise in demand on 2012.

Figure 28

Sales of cosmetics in Russia in 2013-2014



Source: Monthly retail audit of the RF pharmaceutical market by DSM Group. ISO 9001:2008.

Note: the sales are in pharmacy cost prices incl. of VAT.

Russia has no official classification of cosmetics; however, based on their purpose, action and price, all cosmetic products can be classified into three groups: active (medicinal) cosmetics,

MASS-MARKET cosmetics, and high-end cosmetics (premium and luxury class). Note that division into these three groups is arbitrary and subjective.

Active (medicinal) cosmetics are used for the treatment and prevention of certain diseases, and contain various bioactive substances. Medicinal cosmetics include the brands Sophia (creams and salves), creams Boro Plus etc.

Mass-market cosmetics – cosmetics designed for skin, hair and nail care, and affordable by a majority of consumers. They are commercially available both from pharmacies and other retailers (supermarkets, specialist shops etc.).

Normally, such cosmetics offer no condition treatments, for example, for acne. Mass-market cosmetics include products from manufacturers such as Garnier Laboratories and Nivea.

High-end (premium and luxury class) cosmetics – up-market, exclusive cosmetics, which often feature cosmetics lines designed for certain skin or hair conditions. For the most part, these are expensive products (upwards of 800 rbl. per unit) and are normally available from pharmacies only. By way of example, high-end cosmetics are manufactured by Vichy Laboratories.

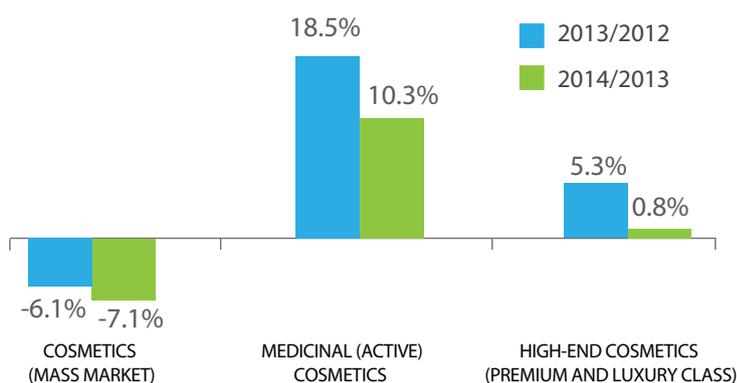
Among the three types of goods, the greatest growth by value is in the segment of skin care products (+10.3%). In terms of units sold, this sector is down (-4.2%). This segment is the fastest growing because product positioning is often in-between non-medicinal and medicinal mix. During a downturn, it is least affected by the negatives thanks to the low price and medicinal effect of products.

Though markedly slower, some growth was still achieved in the sales of high-end cosmetics: +1% by value and -7% by volume. This segment of pharmacy cosmetics grew confidently in 2013, but in 2014 it developed a negative trend: a quite appreciable decline in volume sales in conjunction with economic difficulties will in all likelihood at some point down the road result in a reduction in the sales of high-end cosmetics by value too. Because of its high prices, this market sector is most susceptible to a drop in consumer purchasing power and rather dependent on imports (all luxury cosmetic products are of foreign origin), which also deprives it of mobility in terms of price situation.

Demand for pharmacy mass-market cosmetics at year-end 2014 was down 7% by value and 12% by volume. This is a relatively new trend because the decline in the sales of low-end cosmetics did not start until 2013, following a few years of consistently higher sales. That said, note that this is economically sound and has nothing to do with the downturn: in this situation, realization of mass-market cosmetics takes place not only and not so much through pharmacies as through other distribution channels (retail chains, specialist shops etc.). This puts the pharmacy at a disadvantage for competing against them and makes it lose on prices. Therefore, the shopper in search of mass-market cosmetics comes back to the conventional retailers.

Cosmetic products distributed through pharmacies range widely in price: from cheap ones, priced around 15-20 rbl. (soap, wet wipes, hand creams etc.) to very expensive ones, whose price can exceed 10,000 rbl. per unit. At year-end the weighted average per unit price was about 136 roubles (up 12% on 2013). In this context, the segment of skin care products showed the greatest increase in the weighted average per unit price (from 107 rbl. to 123 rbl.). The segment of high-end cosmetics improved by 8% (the weighted average price at year-end 2014 was 703 rbl.), and mass-market cosmetics became 6% more expensive on the average (the weighted average per unit price was 79 rbl.).

Cosmetics sales gain by cosmetic product



Source: DSM Group. ISO 9001:2008

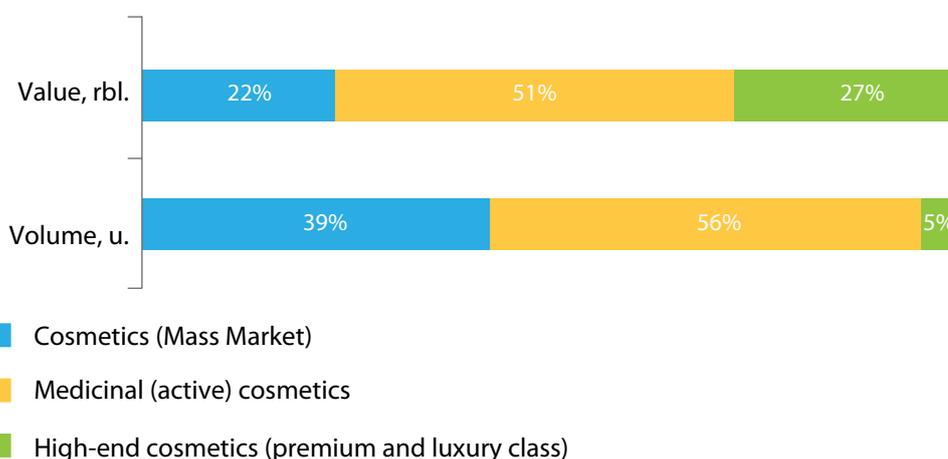
Note: percentages are of sales in pharmacy cost prices incl. of VAT.

The balance between the sales of cosmetic product groups is shown in Figure 30.

The balance between three types of cosmetic goods has somewhat changed: the segment of skin care products is up by value to 51% at year-end 2014 (48% in 2013). The share of the mass-market segment went down 3% over the year to 22%, and high-end cosmetics have kept their positions (the segment's proportion is 27%). In terms of units sold, premium and luxury cosmetics have captured a mere 5% because of their higher price. The shares of the segments of mass-market cosmetics and medicinal cosmetics by volume are as follows: 39% and 56% respectively.

Figure 30

Balance between pharmacy sales of cosmetics by type of cosmetic product, 2014

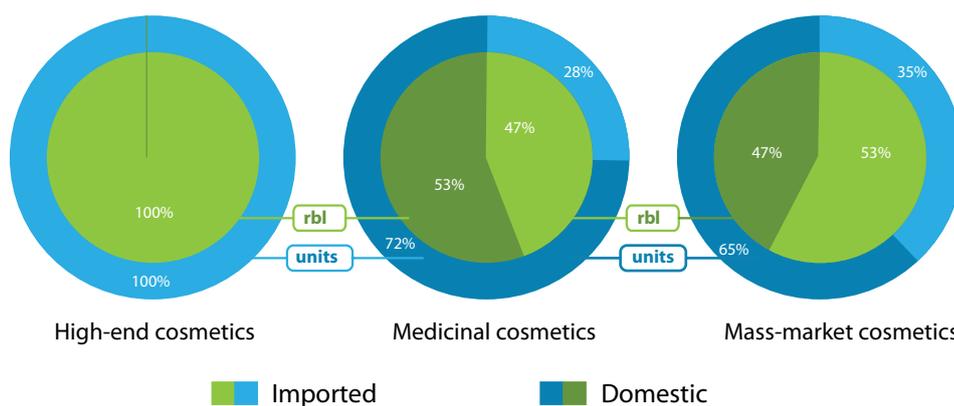


Source: DSM Group. ISO 9001:2008.

Note: percentages are of sales in pharmacy cost prices incl. of VAT.

As is evident from figure 31, Russian-made products are in higher demand than are imports, accounting for nearly 66% of the volume sales. By value, however, foreign-made cosmetics are well ahead (over 60% of the sales).

Balance between pharmacy sales of cosmetics by type of cosmetic product, 2014



Source: DSM Group. ISO 9001:2008.

Note: percentages are of sales in pharmacy cost prices incl. of VAT.

Within the segments, the balance between national and foreign cosmetics is uneven.

High-end cosmetics in 2014 are 100% imports. Domestic companies are not yet in a position to compete against foreign manufacturers in this segment.

In the mass-market segment, just as last year, domestic cosmetics are ahead of imports in terms of units sold (65%). By value, the advantage is still with foreign brands (53%).

In the segment of medicinal cosmetics, domestic brands are in the lead both by value (53%) and by volume (72%).

The pharmacy mostly sells undifferentiated cosmetics, suitable for any and all consumer – they account for 76% and 80% of the sales by value and volume respectively. Second place is held by cosmetics for children, 9% by value and 15% by volume. In third place are cosmetics for the older (25+ years old). This category shows a certain bias towards expensive cosmetics (the segment's share being 6% by value and a mere 2% by volume) – more than 80% of this category's sales are high-end cosmetics. Fourth place is claimed by cosmetics for people older than 45 (4% of the sales by value and 1% by volume). The share of teenager cosmetics at year-end 2014 was 2% by value and 1% by volume. Note that, compared to last year, the shares of cosmetics for older young people are markedly down on last year.

VICHY, as in previous years, is at the top of the ranking of high-end cosmetics (Fig. 32). Compared with 2013, the sales of this brand have dropped by 9%, and its share is down 4%. Negative growth in the top 10 is also reported for LIERAC (down 7% on 2013 sales). All the other brands are up in both absolute and relative terms. Note the higher sales and share of LA ROCHE-POSAY - this is the brand of the manufacturer L'OREAL (as well as VICHY). That is why the 2 brands together account for 60% of the total value of the market, down 3% on the brands' share in 2013. For a fourth year in a row, LA ROCHE-POSAY has been second in the ranking, and at year-end 2014 the market share of cosmetic products of this French brand rose by 2% (a major growth for the top ten brands).

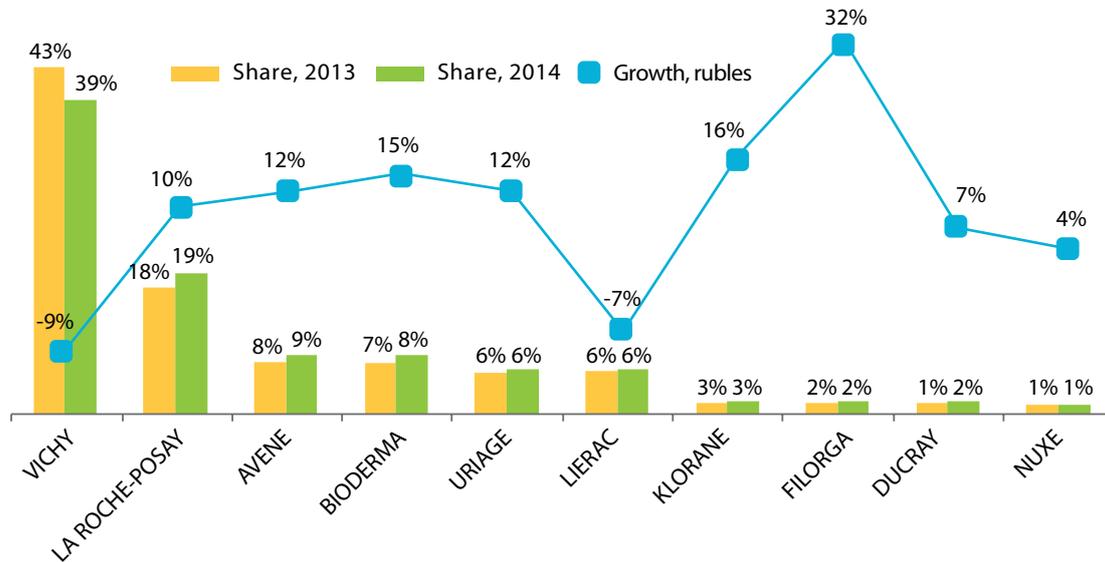
Among the brands occupying places 3 to 10 should be singled out AVENE, BIODERMA, URIAGE and KLORANE – compared with 2013, the sales of these brands were up 12%, 15%, 12% and 16% respectively. In addition, the brand FILORGA outperformed the other key brands of high-end pharmacy cosmetics in terms of sales growth – up 32% on 2013 sales.

The key growth factors for the sales of high-end cosmetics brands are price rises and the roll-out of new products. For the AVENE brand, growth was achieved mostly through the expansion of product line (the brand's average price did not increase much, whereas the number of new items exceeded 10); the brand BIODERMA had no major novelties in 2014, but had a rather dramatic increase in the prices for cosmetic products already on offer (up 16% on 2013); URIAGE grew both due to higher sale prices and due to product-line expansion. The highest sales in 2014 were captured by the brand Filorga, which doubled the line of pharmacy remedies, thus generating such a surge in sales.

In terms of line-up, the 2014 ranking is not much different from the 2013 ranking. There has been some change in the arrangement of certain brands. E.g., lower sales caused a slide from 5th to 6th place for the brand LIERAC, which made room for a growing brand, URIAGE. From 11th to 10th place moved the brand CAUDALIE, allowing NUXE to claim 10th spot and become a full-fledged member of the top 10 high-end cosmetics brands.

Figure 32

Top 10 brands in high-end cosmetics (premium and luxury)



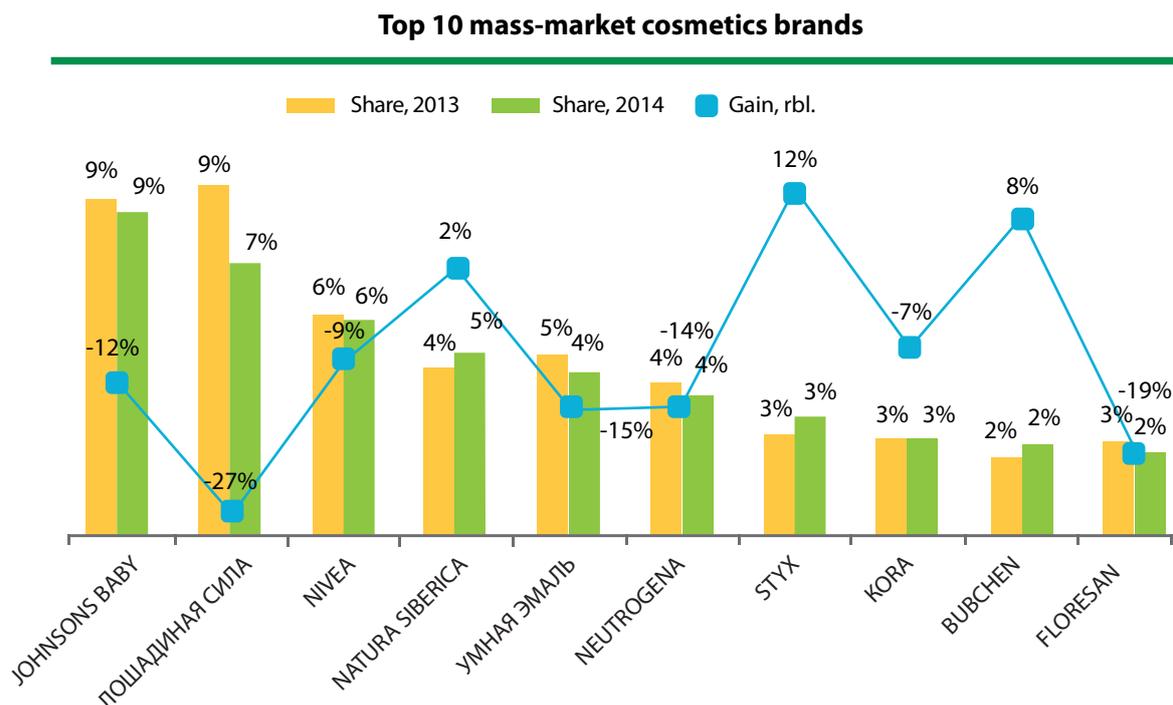
Source: DSM Group. ISO 9001:2008

Note: percentages are of sales in pharmacy cost prices incl. of VAT.

In the ranking of mass-market cosmetics, the first place in 2014 was recaptured by the brand JOHNSONS BABY (Fig. 33). To second place slid the brand that occupied first spot last year, LOSHADINAYA SILA [HORSEPOWER]. In third place in the mass-market ranking is the widely promoted NIVEA. Among domestic brands, the mass-market ranking lists three brands - NATURA SIBERICA, LOSHADINAYA SILA and KORA. Last year it was these brands that represented the national cosmetics industry in the top 10 mass-market cosmetics brands. Out of the three ranked brands from Russia in 2014, sales growth was only recorded for NATURA SIBERICA (up 2% on the 2013 sales); the pharmacy sales of the brand LOSHADINAYA SILA, which falls within mass-market cosmetics, went down by 27% over the year; the sales of KORA products were down 7% on 2013.

In the final analysis, apart from the already mentioned brand NATURA SIBERICA, sales growth was only recorded for the brands STYX and BUBCHEN (+12% and +8% respectively). Demand for cosmetics of the other brands from the top 10 in the mass-market segment was down in 2014: JOHNSONS BABY (-12%), NIVEA (-9%), UMNAYA EMAL [SMART ENAMEL] (-15%), NEUTROGENA (-14%) and FLORESAN (-19%).

Figure 33

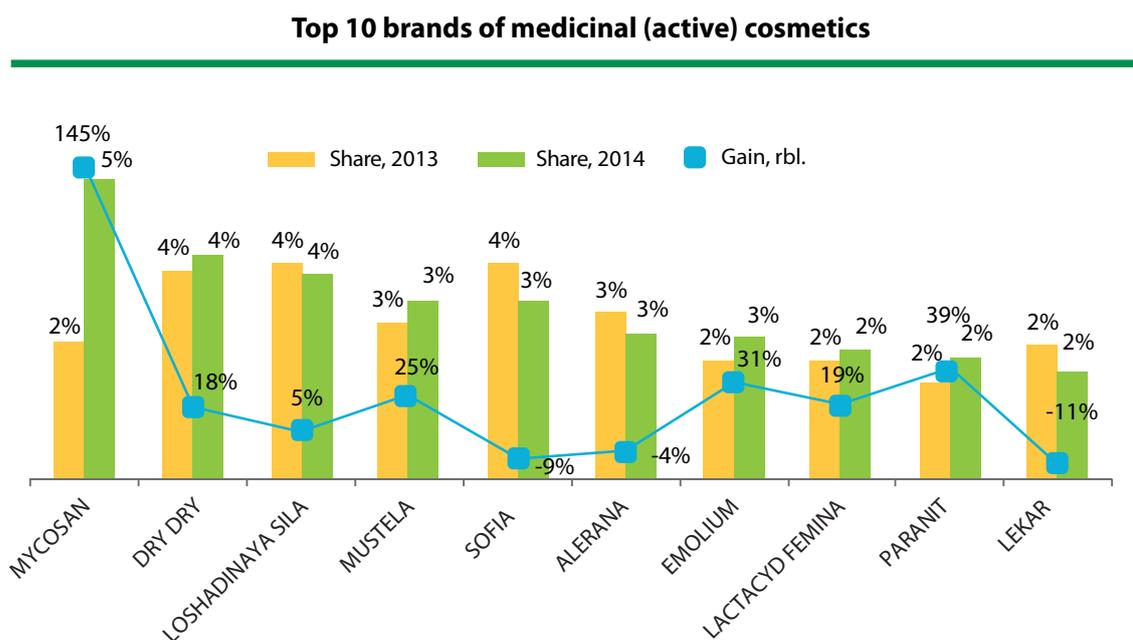


Source: DSM Group. ISO 9001:2008

Note: percentages are of sales in pharmacy cost prices incl. of VAT.

The ranking of medicinal cosmetics had a change of leader: MIKOZAN (set for the treatment of nail fungus) took first place (Fig. 34). This was partly the result of more than two-fold growth of the brand's sales. The sales of the 2013 leader, the brand LOSHADINAYA SILA, in 2014 were up a mere 5%, such a modest gain compared to the other would-be leaders pushed it down (from first to third place). The brand DRY DRY, which includes deodorants, did the reverse by rising from third to second spot (year-on-year increase in sales 18%).

Figure 34



Source: DSM Group. ISO 9001:2008.

Note: percentages are of sales in pharmacy cost prices incl. of VAT.

Note that the aggressively promoted brand LOSHADINAYA SILA is present in two segments of pharmacy cosmetics: mass-market and medicinal cosmetics. The first includes hair care products; the second, joint treatments, body care products and medicinal shampoos.

The largest gain by value among the top 10 brands was demonstrated by the brands PARANIT and EMOLIUM (up 39% and 31% on 2013). Such impressive dynamics enabled these cosmetics brands to settle in the 9th and 7th spot in the ranking respectively. In its cosmetics dimension, the brand PARANIT is presented in Russian pharmacies by pediculicidal agents, and EMOLIUM mostly by body care products.

A noticeable increase (up 25% on last year's sales) was also posted by the brand MUSTELA, specializing in cosmetic products for children and mothers.

The dynamics of pharmacy cosmetics sales in 2014 enables us to make a number of conclusions about the evolution of the market in 2015. On the one hand, a variety of trends in value and volume sales shows that consumer demand focuses on more expensive high-end brands (sustainable sales growth last year was exhibited by the brands LA ROCHE-POSAY, BIODERMA, AVENE and URIAGE). On the other hand, the slowdown in growth is caused by the economic downturn in the latter half of the year, which drove down consumer purchasing power. It is expensive high-end cosmetics that has shown the most noticeable dropt in sales growth rates (+0.8% on 2013 sales; FYI, in 2013 this segment's growth rate was 5.3%).

By and large, it would be premature to predict a slump in the pharmacy cosmetics market. Because the increase in the prices for most cosmetic products, which took shape as early as late 2014, can offset the real reduction in demand (by volume). The situation being what it is, the most sustainable segment seems to be medicinal cosmetics, which are represented by a large number of brands, without an obvious leader but with a wide choice of products offered to the shopper at more attractive prices than in the segment of high-end cosmetics. A case in point is the brands LORA and LIBREDERM. These brands, which made the top 30 in medicinal cosmetics at year-end 2014, offer the shopper a wide choice of face care products.

7. Medicinal drugs import

Faced with a volatile economy and sanctions, the government got to grips with the issue of medicine import substitution.

The current main challenge for the Russian pharmaceutical industry is to scale up domestic manufacturing of all medical products. It is this idea is the bedrock of a new draft decree, which has already been endorsed by Minzdrav, Economy Ministry, Finance Ministry and the Federal Antimonopoly Service (FAS). It proposes to bar foreign pharmaceutical manufacturers from public procurement if bids are available from no fewer than two suppliers in Russia, Belarus, Kazakhstan or Armenia. The decree's sponsors believe this is the way to achieve the core objective of import substitution: 90% Russian-made medicines on the list of List of Vital and Essential Drugs by 2018. In this context, the document says that until the end of 2015 bidding companies from the listed countries only need to provide primary or secondary drugs packaging, with no actual drugs manufacturing required before January 2016. If the decree is put into place, then medicine assistance beneficiaries will be switched to generics as of 2017.

At the same time, Russian authorities do not propose dropping foreign drugs without [locally made] substitutes. The Government plans in 2015 to allocate an additional 16 bln roubles to purchase medicines for beneficiaries in connection with the change in rate of exchange in the acquisition of medicines, medical products and consumables, including those procured under a government medical benefits scheme.

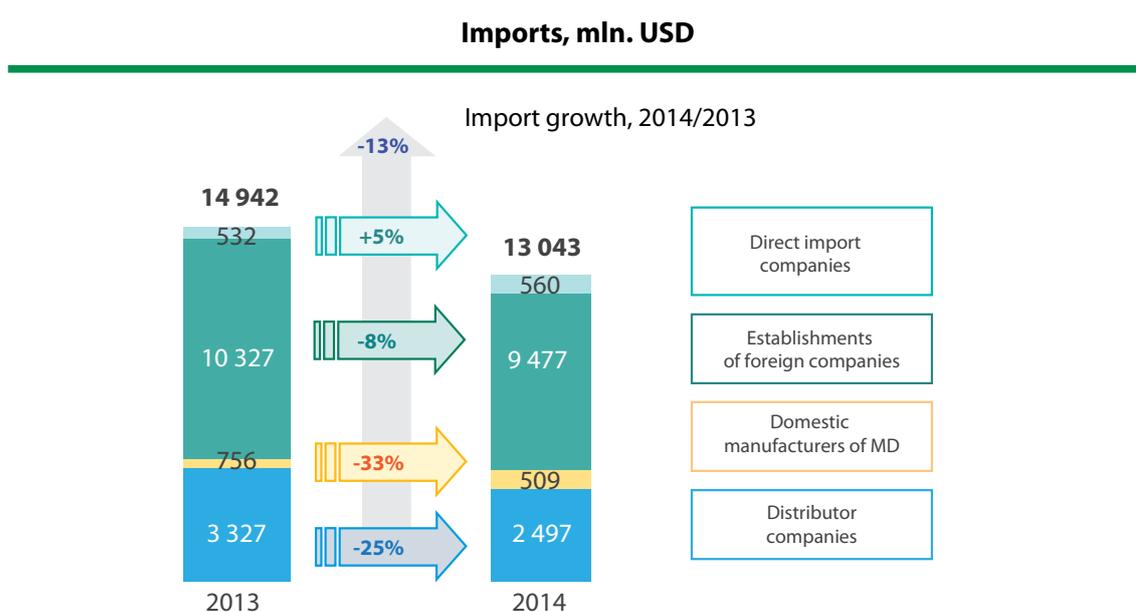
One of the tools proposed by the government in an attempt to minimize medicine price rise is the introduction of parallel import – in other words, procurement and import of goods without authorization from the rightsholder, through third-party distributors. Government sources believe that it will be much cheaper to buy goods from third-party exporters than doing business with an authorized reseller only. This gives rise to a number of concerns:

- quality and safety assurance for such products, as well as the risk of higher supply of counterfeit and fake products by unscrupulous suppliers;
- lower interest from foreign companies in setting up manufacturing in Russia.

All the innovations under discussion will affect the market in 2016-2017 and will drive down the imports of pharma products. Meanwhile, imports of medicinal drugs and APIs are still a key component of the national pharmaceutical market.

Figure 35 shows Medicinal drugs import in Russia in 2014.

Figure 35



Source: Diamond Vision.

Medicinal drugs import in Russia in 2014 were 13.0 bln USD (in customs value), down 13% on 2013. By volume, the imports of medicinal products are approximately 2.9 bln units, down 6.7% on 2013.

The reduction in the supply of pharmaceutical was mostly due to forex fluctuations: importers were afraid to bring in large quantities of medicines and used their stocks. Most of the drop in imports occurred in the 4th quarter of 2014: the imports of medicines were down 23% on October-December 2013.

The API imports in 2014 were 810 mln. USD, up 3% on 2013. Russia imports some 11 thou. tonnes of APIs. Leading by value are European-made APIs (63%). By volume, a large share is claimed by Chinese-made APIs (67%), followed by APIs from India (11%).

Table 17

Share of countries exporting APIs to Russia			
Country of origin	Share by value (USD), %	Country of origin	Share by volume (kg), %
Germany	21.3%	China	66.7%
China	21.2%	India	11.0%
France	19.1%	Germany	9.1%
India	10.1%	France	3.4%
Slovenia	9.4%	Austria	1.7%
Italy	6.6%	USA	1.5%
Spain	2.3%	Serbia	1.1%
Hungary	2.2%	Switzerland	0.9%
Switzerland	1.3%	Spain	0.7%
Ukraine	1.2%	Italy	0.7%

Source: Diamond Vision.

Table No 18 lists the shares of various groups of drugs importers into Russia (by value imports of the group in 2013 and 2014).

Table 18

Share of various groups of drugs importers into Russia as a percentage of total Medicinal drugs import in 2013 and 2014			
Ranking	Importers	Share of Medicinal drugs import, %	
		2013	2014
1	Distributor companies	22.2%	19.1%
2	Establishments of foreign companies	69.1%	72.7%
3	Direct importers	3.6%	4.3%
4	Domestic manufacturers of drugs	5.1%	3.9%
Итого:		100%	100%
Imports, \$ mln.		14 942	13 043

Source: Diamond Vision.

As is evident from Table No 21, in 2014 more than 90% of the total Medicinal drugs import is accounted for by two groups of importers - distributor companies and establishments of foreign

manufacturers. The structure of imports shows an increasing share of the segment «Establishments of foreign manufacturers». The share of imports through distributor companies continues to decline, as do the imports of this group of importers.

The greatest share of imports is captured by establishments of foreign manufacturers – 73%.

The segment «Direct importers» in 2014 was up 5% (in the structure of imports). The No 1 player in this segment is the company FARMATSEVTICHESKY IMPORT, EKSPORT [PHARMACEUTICAL IMPORT/EXPORT]: its share is 54%. The bulk of the segment's gain is due to the nearly 1.5-fold increase in the imports of the company PHARMSTOR, specializing in the supply of medicinal drugs on the hospital list.

The biggest importer among domestic manufacturers of medicines is UFIMSKIY VITAMINNY ZAVOD [UFA VITAMIN MANUFACTURER] - its share at year-end 2013 was 29%. Virtually all businesses included in this segment demonstrate negative growth.

Let us take a look at the leaders in the groups of importers occupying top spots in the ranking - distributor companies and establishments of foreign manufacturers.

Table No 19 lists the top 10 establishments of foreign manufacturers by 2014 imports.

Table 19

Top 10 establishments of foreign manufacturers by 2014 imports

Ranking	Establishment of foreign manufacturers	Share of imports of Establishments group, %		Up on 2013, USD
		2013	2014	
1	NOVARTIS	9.8%	9.9%	-10.7%
2	SANOFI	10.9%	8.4%	-31.7%
3	ABBOTT	5.5%	6.1%	-1.8%
4	TEVA	4.8%	5.8%	7.3%
5	TAKEDA	3.8%	4.9%	14.4%
6	PFIZER NK	3.6%	4.9%	21.7%
7	MSD	4.6%	4.6%	-11.6%
8	JOHNSON & JOHNSON	4.9%	4.1%	-25.8%
9	BAYER	3.9%	3.9%	-11.4%
10	BOEINGER	3.7%	3.9%	-6.9%
Total:		58.0%	56.0%	

Source: Diamond Vision.

The group «Establishments of foreign companies» was down 8% in USD terms in 2014. Concentration in the group of importers «Establishments of foreign companies» was down to 56% against 58% in 2013.

Imports were down virtually across the board. Just as in previous years, the leaders in the group of importers «Establishments of foreign companies» are still NOVARTIS and SANOFI. The leading troika is completed by the establishment of the manufacturer ABBOTT.

Among the companies with high growth should be singled out the establishments of RUSFIC, AMGEN, FRESENIUS and VALEANT. Manufacturers are also phasing in direct supply.

Table No 20 lists the top 10 distributors by Medicinal drugs import into Russia.

Top 10 distributors by Medicinal drugs import into Russia in 2013 and 2014

Ranking	Distributor	Share of imports of Distributor Companies group, %		Up on 2013
		2013	2014	
1	Protek	16.8%	20.3%	-8.4%
2	R-PHARM	18.5%	17.8%	-27.5%
3	Katren	12.3%	9.3%	-42.9%
4	SIA International	8.0%	8.3%	-21.1%
5	ROSTA	7.1%	7.5%	-20.9%
6	FK PULS	3.8%	5.1%	-1.2%
7	EUROSERVICE	5.4%	3.9%	-44.9%
8	Oriola	5.7%	3.9%	-48.3%
9	Alliance Healthcare Russia	5.0%	3.5%	48.0%
10	MEDINTORG	1.8%	3.0%	29.2%
Total:		84%	83%	

Source: Diamond Vision.

The top ten importing distributors' share of the total imports of the Distributor Companies group was down to 83% in 2014. As is evident from Table No 22, the top distributors by imports in the Distributor Companies group in 2014 are the following three companies: PROTEK, R-PHARM and KATREN. PROTEK recaptured first place at last year-end. In 2013 R-PHARM rose to the top of the ranking of importing distributors for the first time. Taken together, the share of the top three medicine suppliers is 47%.

In a mirror reflection of overall trends of medicinal drugs import into Russia, the dynamics of national and inter-regional distributors shows a downward trend. Local or specialist distributors show upward trends. E.g., at year-end 2014 the top 10 was reached by the distributor MEDINTORG (the company specializes in the supply of medicinal drugs for orphan diseases and medicinal drugs used in psychiatry and neurology, cardiovascular surgery and transplantology, gynaecology etc.). The imports of this company were up about 30%.

The high growth rate of imports is shown by the wholesaler IRVIN-2, specializing in the supply of drugs under high-profile government projects for the prophylactic and treatment of cancers, tuberculosis, hepatitis A and B, HIV infection, and for Drug Reimbursement Program (DLO), including cost-intensive ICD diseases. This company's imports were up by more than 260%. At year-end, the company's share was 1.1% (against 0.2% in 2013).

The medicine imports of the company BIOTEK was down nearly 5 times. As a result, the company dropped out of the top 10 importing distributors. The reduction in quantities is due to the distributor's scale back of involvement in medicine assistance programmes.

Table No 21 lists the top 20 manufacturers by Medicinal drugs import into Russia by all groups of importers.

**Top 20 drugs manufacturers by Medicinal drugs import into
Russia by all groups of importers in 2013 and 2014**

Ranking		Manufacturer	Share of the total import value, \$, %		Up on 2013
2013	2014		2013	2014	
2	1	NOVARTIS	7.0%	7.8%	-7%
1	2	SANOFI	7.4%	6.1%	-30%
4	3	MERCK	4.2%	4.0%	-19%
7	4	TEVA	3.1%	4.0%	8%
6	5	ABBOTT	3.6%	4.0%	-6%
8	6	TAKEDA	2.9%	3.7%	7%
11	7	PFIZER	2.6%	3.2%	6%
3	8	F.HOFFMANN-LA ROCHE	4.6%	2.9%	-46%
5	9	BERLIN-CHEMIE	4.1%	2.9%	-40%
9	10	GEDEON RICHTER	2.9%	2.8%	-17%
14	11	BOEHRINGER INGELHEIM	2.4%	2.6%	-8%
13	12	BAYER	2.5%	2.5%	-15%
15	13	ASTELLAS	2.1%	2.5%	0%
12	14	JOHNSON & JOHNSON	2.6%	2.4%	-22%
17	15	KRKA	1.9%	2.3%	3%
16	16	ASTRAZENECA	2.0%	2.0%	-17%
10	17	GLAXOSMITHKLINE	2.8%	2.0%	-41%
18	18	DR.REDDY'S LABORATORIES	1.7%	1.6%	-21%
20	19	SERVIER	1.6%	1.4%	-26%
22	20	BAXTER HEALTHCARE	1.1%	1.4%	4%
Итого:			62%		

Source: Diamond Vision.

The share of the top 20 drugs manufacturers by imports into Russia in 2014 was 62%. Major manufacturers by Medicinal drugs import into Russia in 2013 are NOVARTIS, SANOFI and MERCK.

8. Pharmacy chains

Increasingly more retailers find it easier to stay in sync with the market by growing a number of chains under different brands in different formats. Pharmacy retail is no exception: chains currently grow in several formats: self-service pharmacies and the so-called discounters (pharmacies offering low, wholesale prices). Nearly every one of the top 20 chains comprises two or even more brands for every format. The discounter format is popular, particularly in a down economy; it makes it possible to bring in shoppers in a low-income bracket.

The pharmacy chain RIGLA operates pharmacies under different brands; the company grows a number of formats, including but not limited to: RIGLA, premium pharmacy; a discounter, RIGLA-DOBROYE SERDTSE [GOOD HEART] and a deep discounter, BUD ZDOROV [STAY HEALTHY]. The pharmacy chain A5 is actively rebranding its pharmacies as NORMA, which is promoted as a discount pharmacy. The pharmacy chain A.V.E. has its own pharmacy differentiation scheme: GORZDRAV, a discounter brand; 36.6, a mid-price segment brand; the brand A.V.E. is reserved for high-end pharmacies. Following its merger with St Peter's discounter OZERKI, the pharmacy chain DOKTOR STOLETOV intends to grow this format throughout Russia, confining premium pharmacies to Moscow alone.

The pharmacy retailer NEOPHARM is launching a drogerie format – a health and beauty hypermarket, a neighborhood shop, which sells non-food staples. In such shops, medicines will account for up to 35% of all items. The pharmacy chain NEOPHARM grows the brands NEOPHARM, NEOPHARM-EKONOM and STOLICHKI, and integrates 110 pharmacies.

The year 2014 also brought in new deals and mergers.

Early in 2014 the pharmacy chain RADUGA [RAINBOW] announced a merger with Pervaya POMOSHCH [FIRST AID]. The merger of the chains took place under the umbrella of ROSTA, the distributor that owns the RADUGA chain. Because of the merger, RADUGA has a 1.8% share of the pharmaceutical market and 866 outlets at year-end.

The year ended with an acquisition by Pharmacy Chain 36.6 of the Russian arm of Finland's Oriola-KD, which comprises the pharmacies STARY LEKAR and 03 Apteka. The 36.6 chain itself is in the process of merging with A.V.E. group. The deal was announced as far back as 2013. A secondary offering of 36.6 shares, which had been planned for the merger with A.V.E, did not take place in 2014; however, the companies are already fully integrated at the operating level, are actively engaged in pharmacy rebranding and promote themselves as a single company. Based on the results of secondary offering, which is expected to be completed by May 2015 years, the co-owners of A.V.E intend to have a controlling interest in the amalgamated company. As a result of such acquisitions, A.V.E. group will become the market leader in 2015, which is suggested by the interim results for the 4th quarter of 2014: in the ranking of pharmacy chains, the sales of A.V.E. (including those of STARY LEKAR and 03 pharmacies) left the competitors behind.

The restructuring of the pharmacy chain 36.6 carried out by A.V.E. throughout the year enabled local players to acquire the company's regional assets.

A major St Petersburg pharma distributor, BSS bought 71 pharmacies in different areas of this country. BSS had already been growing its own pharmacies under the brands of ALOE and EDIPHARM. 36.6 pharmacies will operate under the brand of ALOE; after the merger, the number of outlets of the pharma distributor's retail chain was up to 105.

Ownership of 17 pharmacies of the 36.6 branch in St Petersburg and in the North-West was acquired by the chain RADUGA. Ufa's PHARMLEND got more than 100 36.6 pharmacies in Bashkiria; Nizhny Novgorod's LADUSHKA acquired 40 pharmacies.

Another trend in the pharmaceutical segment can be identified as the opening pharmacies on the premises of food retailers.

For example, the pharmacy group A5 intends in the next five years to open 1000 outlets at the shops of X5 Retail Group, the nation's No 2 food retail chain in terms of sales. About three hundred pharmacies are already in place at major supermarkets such as Pyatyorochka, Karusel and others.

Dixy, Russia's No 3 food retailer by sales, made a deal with A.V.E. group, granting pharmacies a right of first refusal on sub-leasable space at their shops. Under the arrangement, pharmacies can open on the premises of Dixy's neighborhood shops and Victoria supermarkets.

Cooperation between pharmacy and food retailers was taken to the next stage in 2014.

The company Kholding Prodovolstvennaya Birzha (the chain of supermarkets Polushka, Laim and Ye-da!) launched a new pharmacy chain in the summer of 2014. The shops are expected to

be set up at Polushka supermarkets (150 shops). By the end of the year, there were already as many as 10 pharmacies.

Pharmacy chains seek new forms and formats of engagement to influence suppliers and manufacturers.

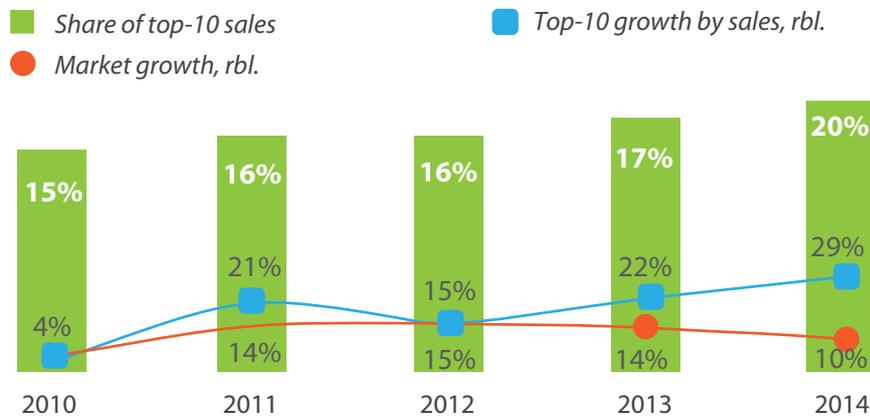
In August 2014, A5 and PHARMAIMPEX signed an agreement to set up their own marketing co-operation under the trade name of Kompas, which is expected to enable joint promotions with medicine manufacturers, best terms of direct contracts, as well as allowing putting together a single portfolio of products under a house brand. Symbolically, the alliance manifested itself in the joint opening of 3 discount pharmacies under the brand of NORMA in Novosibirsk.

At the end of 2014, RADUGA also announced a marketing alliance with the discounter LADUSHKA and Krasnoyarsk-based government-owned chain GUBERNSKIYE APTEKI [PROVINCIAL PHARMACIES].

The M&A deals in 2013-2014 increased the concentration of pharmacy chains. In aggregate, the top 10 chains grew in 2014 by 29% on the same period of 2013. The top 10's share was 20%, up 3% on 2013.

Figure 36

Concentration of the top 10 pharmacy chains

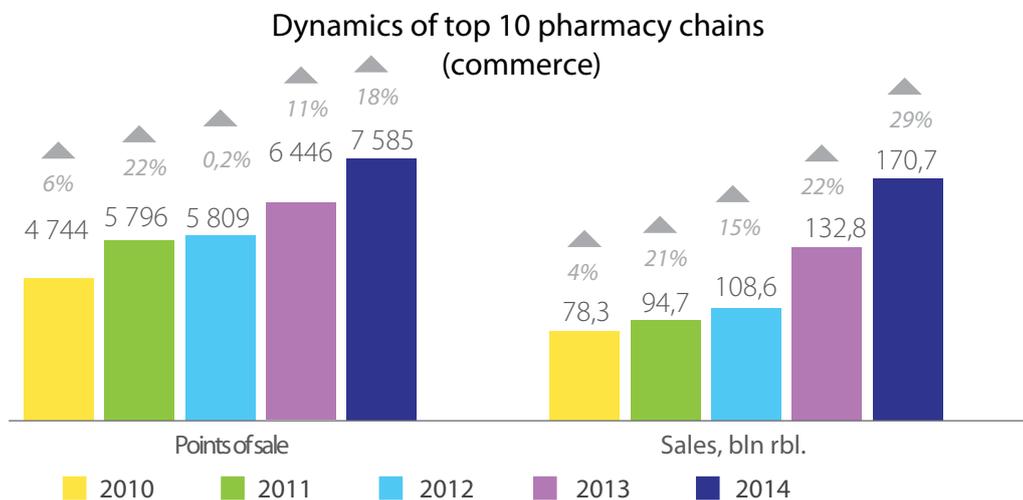


Source: DSM Group. ISO 9001:2008.

Diagram No 37 shows the growth of sales and outlets of the top 10 pharmacy chains in 2010-2014. The last two years have seen a significant increase in the number of outlets because chains have started growing fast organically and through mergers. The leaders in growing their chains organically are RIGLA and IMPLOZIYA.

Figure 37

Growth rates of sales and outlet numbers of the top 10 pharmacy chains



Source: DSM Group. ISO 9001:2008.

The market leader at year-end 2014 is still the RIGLA pharmacy chain. In the reporting year, the company carried on its strategy of organic growth, which added 210 pharmacies to the chain. According to the ranking, RIGLA's share rose from 2.9% to 3.2% over the year.

The runner-up at year-end 2014 was the company A.V.E. group. After its transformations, the pharmacy chain has 3% of the market and 709 outlets.

In 2014 the ranking of pharmacy chains (top 20) saw new names: PHARMKOPEIKA (Omsk), APREL (Krasnodar) and NEO-PHARM (Moscow). Pharmacy chains demonstrate high growth rates in sales, which enabled them to muscle their way into the ranking.

Table No 22 gives the ranking of pharmacy chains in the commercial sector, with volume and value growth figures for 2014.

Table 22

Chain ranking by 2014 sales in the pharmacy commercial market

Ranking	Pharmacy chains	Value, bln rubl.	Share of the commercial segment, 2014	Increase in sales on to 2013	Number of points of sale
1	Rigla	27.4	3.2%	22%	1,202
2	A.V.E. group (incl. 36.6)*	25.5	3.0%	10%	709
3	Implosia	22.6	2.6%	34%	1,350
4	A5	19.6	2.3%	18%	1,005
5	Doktor Stoletov (incl. Ozerki)	18.8	2.2%	13%	342
6	RADUGA (incl. Pervaya Pomoshch)	15.7	1.8%	5%	866
7	Pharmaimpex	12.2	1.4%	7%	534
8	Planeta Zdorovya	10.4	1.2%	16%	635
9	Pharmland	10.3	1.2%	47%	485
10	Vita	8.3	1.0%	8%	457
11	Klassika	8.2	1.0%	11%	178
12	Samson-Pharma	7.8	0.9%	32%	41
13	Pharmacor	7.1	0.8%	13%	380
14	Ladushka	6.6	0.8%	14%	225
15	Melodiya Zdorovya	6.2	0.7%	19%	520
16	Pharmkopeika	6.1	0.7%	210%	187
17	Nevis	5.4	0.6%	13%	282
18	Aprel'	5.3	0.6%	79%	246
19	Neo-Pharm	4.5	0.5%	80%	176
20	Zdorovye lyudi	4.1	0.5%	-7%	220

Source: DSM Group's estimates. ISO 9001:2008, in-house figures from pharmacy chains.

Note: *The sales of A.V.E. group for the 4th quarter 2014 are inclusive of those of the pharmacy chain STARY LEKAR

Financial instability and rouble depreciation triggered off inflation, including on medicines. That focused additional attention on the problem of price hikes. E.g., President Vladimir Putin instructed the RF Government and regional Minzdravs to look into setting up central and local government pharmacy organizations to ensure that the public has access to affordable drugs as well as to potent and anaesthetic medicinal products.

Note that many regions still have their government-owned pharmacy chains in place. According to DSM Group's estimates, the share of public pharmacies can be as high as 10%. Integrating all these pharmacies into a single structure would create a pharmacy chain that would be in the lead in terms of both sales and outlet numbers. The point should be made, however, that such a chain would be difficult to manage: to date, these are pharmacies that are run by authorities at various levels and have different governance structures. Such a chain will certainly be able to

shape the market and negotiate deep discounts from suppliers. However, the creation of a single nationwide public pharmacy chain will take years.

Another public initiative discussed throughout 2014 was authorization for supermarket sales of medicines. The list that Minzdrav proposed accounts for a low 2% share of the pharmacy sales by value and 4% by volume. Food retailers themselves insist on the entire segment of OTC drugs. If endorsed, this initiative can deal a heavy blow to the pharma retail market, according to our estimates.

There has also been a lot of coverage recently about a ban on the online sales of medicines. Remote sales of medicinal products are expressly prohibited by the current legislation, which makes the sale of medicines via the Internet illegal. Online pharmacies are also outside the law. That is why it has been suggested once again that they be closed down. Such debates have been in progress for many months now, and a new call for something to be done about it has been made by Mikhail Murashko, acting head of Roszdravnadzor [Federal Service of Russia for the Oversight of Public Health and Social Development]. At the end of the day, the agency suggested it be given the authority to hunt down such websites and declare that they be taken down. No suggestion has yet been made in this context that the segment be put under government regulation. In other words, there may also be blacklisted the websites of licensed pharmacies.

Therefore, changes in the pharma retail sector are ongoing. Moreover, the market line-up can possibly change once again at year-end.

9. Distributor sector of the pharmaceutical market

The distribution link has always played an important role in the growth of Russian pharmaceutical market and has dominated the product supply chain. In recent years, the wholesale link has lost some of its importance. Government regulation of List of Vital and Essential Drugs markups, market oversupply and price wars cut down distributors' profit margins. In a volatile economy, it was distributors who were the first to feel financial pressure: bank loans became more expensive. Rouble weakening made it necessary to rethink business strategies: the share of short-term contracts is up, as are prices for drugs not on the List of Vital and Essential Drugs.

The distributor feels pressure, from manufacturers and retailers alike: the manufacturer is trying his best to fill the distribution channel as much as possible; the pharmacist for his part goes by the price and range in choosing his supplier. And victory goes to the distributor who offers a competitive price and the best service.

The distributor segment has currently two clear trends: cost reduction and business diversification. Virtually all distributors have diversified to some extent:

- With retail companies are affiliated PROTEK (Rigla pharmacy chain), ROSTA (RADUGA), Alliance Healthcare Rus (Alphega Apteka), Oriola KD (Stary Lekar), IMPERIYA-PHARMA (Doktor Stoletov), as well as KATREN, BIOTEK, PULS, BSS, EUROSERVICE and PHARMKOMPLEKT.
- A manufacturing arm is in place with PROTEK, SIA International, ROSTA, R-PHARM, BIOTEK, IRVIN 2 and IMPERIYA-PHARMA.

The trend of distributor diversification is the current reality in the market, which is taken further down this road every year.

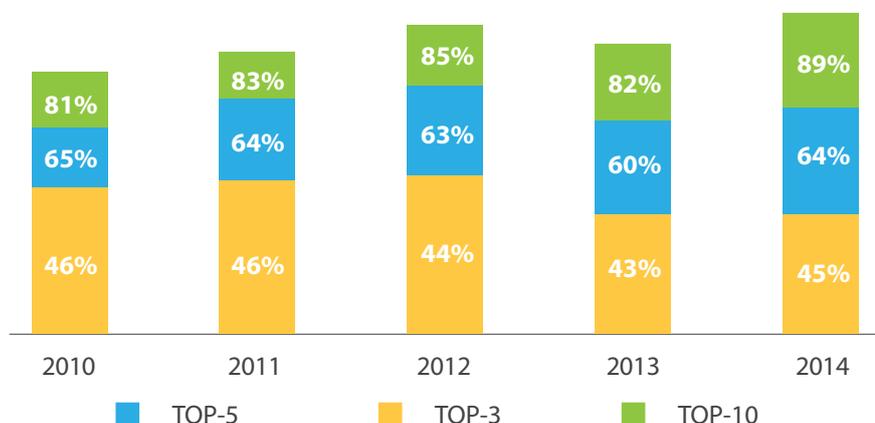
For example, note the development of the retail chain of the distributor BSS: the company has been aggressively acquiring the regional 36.6 pharmacies being sold in Murmansk, the Central Federal District and the Ural Federal District. As a result, BSS's pharmacy chain, operating under the brand of ALOE, boasts 105 outlets at year-end 2014.

The company R-PHARM focuses on the development and manufacture of medicinal drugs. This being the case, the company expanded its manufacturing beyond Russia: in 2014 R-PHARM acquired a manufacturer in Germany, formerly owned by PFIZER. In so doing R-PHARM plans to expand into the markets of European countries with its own innovative solutions and licensable products.

The concentration of distributors was up in 2014 – at year-end, the share of the top 10 distributors was about 89%. In this context concentration was up at all levels. The trend of the last 4 years broke, and the share of the top 3 distributors is up 2% from 43% to 45%. The increase in the aggregate share of the leading troika is due to the higher growth rates of all distributors compared with 2013. The greatest contribution to the gain was made by SIA and KATREN.

Figure 38

Concentration in the distributor segment



Source: DSM Group. ISO 9001:2008.

The leader at year-end 2014, just as in 2013, is the distributor KATREN. The company has been growing much faster than its competitors have in recent years. The year 2014 was no exception: a 17% increase on 2013 sales enabled the company to dramatically boost its share (+1% is a high result for No 1) and pull away from the runner-up. Katren is the only distributor that is growing its business not only within Russia, but also in the CIS countries (to date the company has presence in Ukraine, Kazakhstan and Belarus). In addition to that, we will highlight a number of successful projects of the company. The website Apteka.ru run by Katren claimed third place in the top influential medical and pharmaceutical websites at year-end 2014: the service targets the end user. A survey conducted by DSM Group in autumn 2014 found the magazine Katren-Stil Pharma [Pharma Style] to be the most popular specialist pharmaceutical publication with the professional community.

Distributor PROTEK took second place (12 bln rbl. behind KATREN). The company's growth slowed down because of stronger competition from the distributors occupying spots 3-10 in the ranking.

The top 3 in 2014 is completed by the distributor SIA. The company is once again in the leading troika. In 2014 SIA's sales growth rate exceeded those of the market and its closest competitors. A 29% gain enabled the company to overtake the distributor ROSTA, which was third at year-end 2013, and increase its share of the market to 11.5%.

Note that in the top 10 the largest gain is demonstrated by the company PULS. In recent years the distributor has been actively growing its regional chain: in 2014 the number of branches reached 12. The high growth rates enabled the company to claim 6th spot in the ranking, though in 2011 it was as far down as 10th place.

Table 23

Top 10 distributors in the pharmaceutical market of drugs

Ranking-2014	Distributor	Value, bln rbl.	Share	Total value increase
1	Katren	160.7	17.2%	17%
2	Protek	148.3	15.9%	11%
3	SIA	107.7	11.5%	29%
4	ROSTA	104.4	11.2%	11%
5	Alliance Healthcare	73.2	7.8%	19%
6	Puls	71.0	7.6%	44%
7	R-Pharm	69.4	7.4%	11%
8	Pharmcomplect	38.3	4.1%	25%
9	Oriola	34.9	3.7%	-14%
10	BCC	20.6	2.2%	14%

Source: DSM Group. ISO 9001:2008, in-house figures from companies, and the agency's expert estimates.

Note: the sales are in pharmacy cost prices incl. of VAT.

The distributors ranked capture most of their sales primarily in the commercial market. That said, the leaders include companies mostly active in other sectors of the pharmaceutical market. For example, the company R-PHARM is a major supplier of medicines under government contracts. At year-end 2014, the distributor, which focuses on the sale of medicinal products used for hospital and secondary care, was ranked 10th by Forbes with total government business worth 32.1 bln roubles. In this context, the pharma company was awarded some 30 thousand contracts, becoming the absolute leader in the public procurement system by this showing. Its closest competitor, the pharma distributor EUROSERVICE, has been awarded 7 thousand contracts only. Note that at year-end 2014 EUROSERVICE occupied 11th spot in the general ranking of distributors with a share of 1.8%.

The year 2014 ended with several developments that are likely to affect the alignment of forces in the distributor link in 2015. Note that this segment was the least affected by any restructuring. The last deal of note was the 2010 acquisition by the Finnish corporation Oriola-KD of the distributor MORON, which was rebranded as ORIOLA.

In 2014 we saw even 2 developments involving distributors.

In December, the former Russian division of Finland's Oriola-KD came under the control of Aptechnaya Set 36.6. As part of the acquisition of that business, the 36.6 group gained control of 13 regional branches of ORIOLA, as well as the pharmacy chains STARY LEKAR and 03 Apteka. The ORIOLA branches in the provinces will be closed. The only one still in operation is the logistics hub, which was also officially in the Domodedovo district of Moscow Oblast in December 2014. The hub's core function is to serve the pharmacy chains of the 36.6 group. ORIOLA will offer available space in its new facility to manufacturers for temporary storage.

2015 could see a merger between two distributors, SIA and R-PHARM. Plans to purchase 51% of SIA International were announced by the R-PHARM management in late October 2014. The amalgamated company can become a leader among distributors with a share of 19%.

Therefore, the growth of distributors in 2015 will be influenced, apart from external factors (downturn and public initiatives), by internal ones such as the rearrangement of the line-up in the wholesale link.

Having been widely discussed in recent years, a full-scale adoption of GMP standards by Russian pharma manufacturers was only achieved to some extent in 2014. Officially, the pharmaceutical industry followed the new rules of good manufacturing practices (GMP), but, as is well known, the failure by legislators to put in place the necessary documents in full and on time and a number of other factors caused a rescheduling of the deadline for the adoption of new standards to 1 January 2016.

The above notwithstanding, some progress was still made in 2014 in the implementation of GMP standards in the national pharma industry. E.g., certification got under way for authorized persons: this is a very new regulatory function for the national pharma industry. Totally 300 professionals were certified. Another milestone is the launch of a wide-sweeping audit of GMP compliance by manufacturers. More than 70 domestic manufacturers have been audited. In most cases, audits identified irregularities, and remedial action was ordered. Also, a number of businesses reported successful completion of quality audit on the part of foreign professionals.

It should be noted that many issues are still outstanding. So far, audits have only covered up to one quarter of domestic enterprises. At such a pace, the auditing of the entire Russian industrial potential will take a number of years to complete. Moreover, a great number of legislative and regulatory issues remain outstanding. At the end of 2014 were adopted sweeping amendments to the Federal Law on Drug Commerce. However, the amendments have done little for the practice of pharmaceutical manufacturing regulation in the form of licensing and inspection of locations for GMP compliance. No guidelines or mechanism have been provided for the exercise of oversight in the manufacture of medicinal products; no legal framework has been put in place for the creation of GMP inspectorate meeting all international requirements; there is still no alignment available for the procedures of registration of drugs and inspection of their manufacturers. The law does not use the term «GMP certificate», which is common for the international trade in medicinal products. It provides for the issue of findings rather than certificates in respect of the manufacturer's compliance with good manufacturing practices. This can be a problem for the export of Russian-made drugs. There is no clarity in some other aspects too. For example, debates are still in progress about who should be given the function of inspection. Still outstanding and quite urgent is the problem of inspecting of foreign manufacturers.

Another hot topic last year for pharma manufacturers active in the Russian market was the new List of Vital and Essential Drugs. It was not updated in 2013, and the hype and suspense surrounding its scheduled release in the second half 2014 was exacerbated by the economic situation and the Government's resulting drive to bring medicine price hikes under control.

As a result, the new List of Vital and Essential Drugs was put in place at the beginning of 2015, with the updated list expanded to include 50 new INNs. The expansion of the list of drugs subject to statutory price control is one of measures to curb medicinal inflation. For the manufacturers of low-end drugs (with an average price per unit up to 100 rbl.), this can cause a reduction in output because of the razor-thin, and sometimes non-existent, profit margins of low-end medicines.

Last year was not as plentiful in M&A deals among national pharma manufacturers as was 2013.

The US pharmaceutical company ABBOTT closed the acquisition of the Russian manufacturer VEROPHARM. ABBOTT gained control over VEROPHARM by purchasing OOO GardenHills, the holding company that owns approximately 98% of VEROPHARM, for 16.7 bln roubles (approximately 305 mln USD). As reported earlier, GardenHills acquired the previous year a controlling interest in VEROPHARM from the 36.6 pharmacy chain.

As for foreign companies, there were quite a few major mergers and acquisitions in 2014.

The company GLAXOSMITHKLINE acquired the vaccine unit of NOVARTIS, except for influenza antiviral drugs. The deal between pharma manufacturers was made public in April 2014. That was also when it became known that they planned to set up a joint venture to manufacture OTC drugs, and to swap a number of assets. NOVARTIS also announced that it had purchased an anticancer drugs manufacturing facility from GLAXOSMITHKLINE.

NOVARTIS's global influenza vaccine manufacturing business will be bought by CSL LIMITED for 275 mln USD. The deal is expected to be finalized in the second half of 2015.

It was also in 2014 that it became known that the Indian pharmaceutical company SUN PHARMACEUTICAL INDUSTRIES was buying from Japan's DAIICHI SANKYO its Indian arm, RANBAXY LABORATORIES, for 3.2 bln USD in shares.

Coming as something of big news for the global market was the acquisition by the company BAYER of a portfolio of OTC drugs from the US pharmaceutical group MSD (the transaction amount was 14.2 bln USD).

A fierce struggle broke out last year for a Botox manufacturer, the company ALLERGAN. The Canadian pharma company VALEANT PHARMACEUTICALS made a number of hostile takeover attempts. The amount of the deal in the making was increased more than once; success, however, was achieved by another pharma giant, ACTAVIS. In the end, the deal was worth as much as 66 bln USD.

The year 2014 was relatively quiet as regards promotion of projects to build manufacturing facilities in this country. A number of projects were aired, one of them floated by the company PHARMASINTEZ to build a facility for the manufacture of APIs for drugs most popular in Russia. The amount to be invested in the manufacturing facility, expected to be sited in Irkutsk Oblast, will be as high as 1 bln rubl. In addition, it became known that the company SANOFI was looking into expanding its manufacturing in Russia, with a site in Leningrad Oblast being looked into as a possible location.

In a league of its own is the news about the creation of a national immunobiological cluster. Having been proposed the RF President, the project provides for the creation of fully self-sufficient immunobiological manufacturing. This means first and foremost vaccines covered by the national vaccination schedule, which must all be manufactured locally.

Nor can one pass over the start-ups of new manufacturing facilities that took place in 2014. The company FORT put on stream the first phase of an innovative biotech complex for the development, implementation and manufacturing of medicinal products in Ryazan Oblast, and BERLIN-CHEMIE opened the first Russian manufacturing facility as part of the Kaluga pharmaceutical cluster.

The ranking of medicine manufacturers in Russia is more than 95% foreign manufacturers. The total market share of foreign-made medicines is 77.2% by value and 41.3% by volume. As already stated above, the medicinal segment was up 11% in total, with the market shrinking 3% by volume. Such low growth in physical terms is due to the negative sales growth by volume of Russian-made medicines (down 8%), whereas the sales of imported medicines were up about 1% by volume.

The ranking of the top 20 manufacturers is relatively stable, with vertical movement normally observed within one-two spots. Although 2014 also saw more dramatic ups and downs.

Taken together, the share of the top 20 manufacturers in 2014 was 53.5%.

The leading troika in 2014 did not change from 2013. The top position is held by the corporation NOVARTIS: in 2014, the manufacturer's share of the publicly funded segments remained the same, its sales being up nearly 4%. That said, the company still captures the bulk of its sales in the retail segment (over 80% of sales are through pharmacies). In all, the company's sales are up 7.0%.

The runner-up is the company SANOFI. Government procurement account for about 29% of the manufacturer's sales; this is slightly down on previous years. The above notwithstanding, the company's sales were up 8.3% in 2014 due to pharmacy sales.

The company BAYER is in third spot. Its sales are up 9.6% on the previous year. This is due first and foremost to higher pharmacy sales of the company's drugs (the pharmacy sales of the company's drugs went up nearly 14% over the year).

Top 20 manufacturers by sales in Russia's pharmaceutical market in 2014

Ranking-2014	Change	Manufacturer	Total value, mln rbl., 2014	Total value increase	Share
1	-	NOVARTIS	57,154	7.0%	5.9%
2	-	SANOFI	51,751	8.3%	5.4%
3	-	BAYER	38,136	9.6%	4.0%
4	2	TAKEDA	30,303	13.0%	3.1%
5	-1	TEVA	28,881	2.6%	3.0%
6	3	JOHNSON & JOHNSON	27,702	16.2%	2.9%
7	-2	F.HOFFMANN-LA ROCHE	27,201	-0.5%	2.8%
8	-8	SERVIER	27,043	9.0%	2.8%
9	-1	ABBOTT	26,007	5.4%	2.7%
10	5	PFIZER	24,285	44.7%	2.5%
11	1	BERLIN-CHEMIE	21,940	3.7%	2.3%
12	1	MERCK	20,451	15.8%	2.1%
13	-1	GLAXOSMITHKLINE	19,911	7.7%	2.1%
14	-3	ОТИСИФАРМ	19,458	3.5%	2.0%
15	-1	GEDEON RICHTER	18,299	7.2%	1.9%
16	-	BOEHRINGER INGELHEIM	16,812	8.9%	1.7%
17	-	KRKA	16,167	10.6%	1.7%
18	3	ASTRAZENECA	15,531	17.1%	1.6%
19	-	STADA	14,994	7.8%	1.6%
20	-	ASTELLAS	14,726	6.5%	1.5%

Source: DSM Group. ISO 9001:2008.

Note: the sales are in the ultimate retail prices incl. of VAT.

The manufacturing firms ranked capture the bulk of their sales in the commercial segment – the segment's total share is 72.6%. The only one of note among the companies whose sales are more than 70% in gov. procurement is F.HOFFMANN-LA ROCHE (85%).

The line-up of market leaders (top 3) lost a domestic manufacturer of medicinal drugs. At the end of 2013, OAO PHARMSTANDART split into 2 companies: OTCPHARM (whose portfolio received 27 OTC drugs) and PHARMSTANDART. As a result, OTCPHARM and PHARMSTANDART took 14th and 21st spots in the ranking respectively.

Given the 2014 deals referred to above, changes in the ranking will continue down the road. For example, factoring in the sales of the company VEROPHARM, ABBOTT will be able to capture a 3.4% market share and rise to 4th place. The amalgamated company SUN PHARMACEUTICAL INDUSTRIES (including RANBAXY) claimed 37th place in 2014.