Russian Pharmaceutical Market

2010

DSM GROUP

Dear colleagues!

Again, the pharmaceutical market managed to surprise us! Never before have we seen such a small market growth. Understanding that the economy is gradually recovering from the crisis, oil becomes more expensive, further enhances the illusion of rapid market growth, but the money of population has run out and the cash flow flowing from the top of oil pyramid has not yet reached the “bottom” of the Russian economy.

The market has become less predictable. Despite the adoption of new laws, there are still enough questions to the mechanisms of regulation described in the laws, and the interpretation of their effect is still in the hands of bureaucrats.

State support of the Russian manufacturers has not crossed the 15% price preference in the government procurement, and no one mentions other mechanisms of support. The ban on the activities of medical representatives could be real threat for Russian producers. With a meager advertising budget, the only way to convey information about a new Russian drug is a medical representative. Prohibition of their activities will benefit the long-standing and widely promoted foreign drugs.

The financial turmoil is not only associated with tighter regulation of prices for vital drugs, but with the cancellation of unified income tax for pharmacies as well. Most participants want to see clear and open market, but the regulation and tax burden are again trying to “drive” it in the shade. The profitability of pharmacies has dropped to the lowest recorded level of 0.5-1% on average in Russia. For the first time we encounter the threat of pharmacies closure in remote locations, where pharmacies are on the brink of survival.

Rapid improvement of the situation and the resumption of rapid market growth should not be expected. The market has changed; it is not the same as in previous years. And this makes it even more interesting! Good luck!

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Analytical report
RUSSIAN Pharmaceutical Market
Results of 2010

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In 2010, the state played a leading role on the market: the number of legislative initiatives was unprecedented. This makes the market more open and ordered.

In 2010, the financial indicators of pharmaceutical market were affected both by the consequence of the crisis, and by government regulation. In 2010, the pharmaceutical market volume has amounted to 667 billion rubles (including VAT) in end user prices, which is only 6% higher than that in 2009.

The Russian pharmaceutical market is import oriented. 78% of drugs in money terms consumed by the population, are produced abroad. Therefore, the ranking of manufacturers is predominantly occupied by foreign companies: SANOFI-AVENTIS, NOVARTIS. The second line is occupied by PHARMSTANDART - the only domestic manufacturer in the TOP-20 of leading players in the Russian pharmaceutical market.

The major players in the commodity distribution network on the pharmaceutical market are the distributors. This is due to the geographic specifics of the country - its large area. According to the results of 2010, the leaders in the distribution segment are CV Protek and SIA International. Their joint market share amounts to 37%. Specialized distributors (R-PHARM, Pulse) are growing rapidly.

Pharmacy segment of the Russian market is represented by the huge number of participants. The largest networks are “36.6”, “Rigla”, “Implozia” - their total share reaches 7%. In 2010, the pharmacy networks divided into 2 groups: those who continued business optimization (36.6, Pharmacor, Doctor Stoletov), and those who made investments in expanding the quantitative composition of the network (Rigla, A5, Melodiya Zdorovya).

In 2010, **commercial segment** of the Russian market shows low growth rate (+6%). Due to strict governmental control over vital drug inflation, the market has lost one of its main drivers: increase in drug prices in the commercial segment was minimal +1%, whereas in 30% of products (vital drugs) the prices have fallen by 4%. Growth of consumption in kind by + 3% may be considered a positive factor. In 2010 the sales volume in commercial segment amounted to about 406 billion rubles (13.4 billion dollars). This is only by 6% more than in 2009.

In 2011, the **parapharmaceutical segment** will be very important for the pharmacy. During the period of strict regulation of drug prices this part of the range becomes a source of additional income. In 2010, the capacity of this segment was more than 118 billion rubles, which is only by 2% higher than in 2009.

The **state sector** (hospital purchases, essential drug reimbursement program and 7 nosologies) in 2010 shows a growth rate of 7%. This is one of the most stable segments of the pharmaceutical market, since its development depends on budget money. The state fully complies with its obligations, and indexes the program of additional drug supply on the annual basis.

In 2010, 88.4 billion rubles were allocated in the budget for purchasing drugs for beneficiaries. Drug supply volume to the regions amounted to 80.8 billion rubles. Thus, in 2010, 7.6 billion rubles was saved that makes 9.4% of the budget. In 2010, the average beneficiary drug cost increased by 11% and amounted to 840 rubles.

The segment of hospital purchases increased by 9% compared to 2009, and its volume was 66 billion rubles.

Drug import volume in Russia in 2010 amounted to 11.8 billion dollars, which is 28% higher than that in 2009.

According the DSM Group forecast the **Russian pharmaceutical market will grow in 2011 by 12% in rubles** and will reach about **750 billion rubles**.

Year 2010 on the Russian pharmaceutical market was marked by "government regulation". It is not the first year we acknowledge that the state is an active player on the drug supply market. This year was remarkable due to legislative innovations and provisions.

The law "On Medicinal Products Circulation" came into force on September 01, 2010. This document replaced the law "On Medicinal Products" dated 1998. The key innovations are as follows:

1. The procedure of medicinal products registration is clearly stated by the stages and deadlines. The maximum term of registration does not exceed 210 days. For generic drugs it does not exceed 60 days. A single state registration fee is charged, which goes to the federal budget, and not to any institution.
2. The state regulation of prices is introduced legislatively for vital and essential drugs that mostly affect the reduction of morbidity and mortality in Russia.
3. The process of medicinal products registration is highly "transparent" – information about the process of registration is placed on the Internet.
4. The issue of availability of medicinal products for rural population is resolved – if rural settlement does not have any pharmacy, the medicinal products are sold in feldsher-midwife stations, clinics, centers of general medical practice.
5. The law obliges the Russian drug manufacturers to switch to European GMP quality standards by January 01, 2014. The licenses issued before this date will also be valid thereafter until the expiration of term specified in these licenses, but only "subject to compliance with t he rules of organization of production and quality control of medicinal products".

With the new law, the market has existed for 4 months in 2010. And we can say that no special negative trends have been found so far.

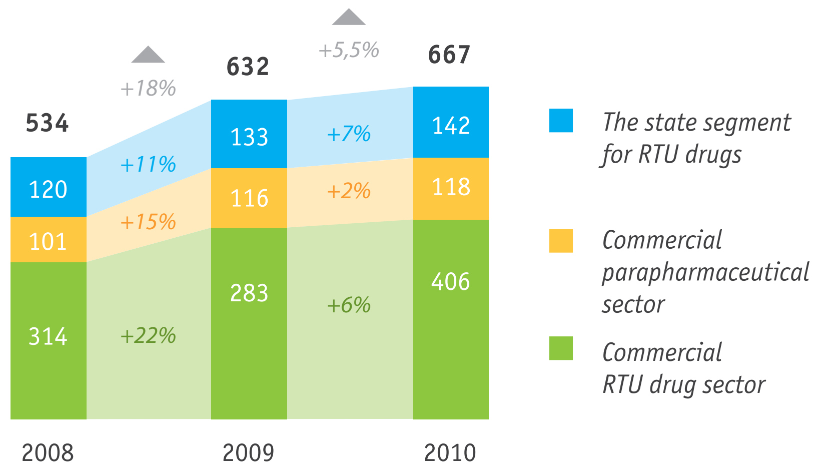
Despite the fact that the state is trying to set out clear code of conduct on the pharmaceutical market, all its participants are, first of all, commercial entities interested in profits. Therefore, let us return to financial indices. Diagrams 1-2 show dynamics of Russian pharmaceutical market volume in end user prices in 2008-2010.

In the previous year market capacity was 667 billion rubles (or 21.9 billion dollars), which is 5.5% higher than that in 2009. The market growth rate is minimal compared to the market growth in past years.

Diagram 1

Pharmaceutical market capacity

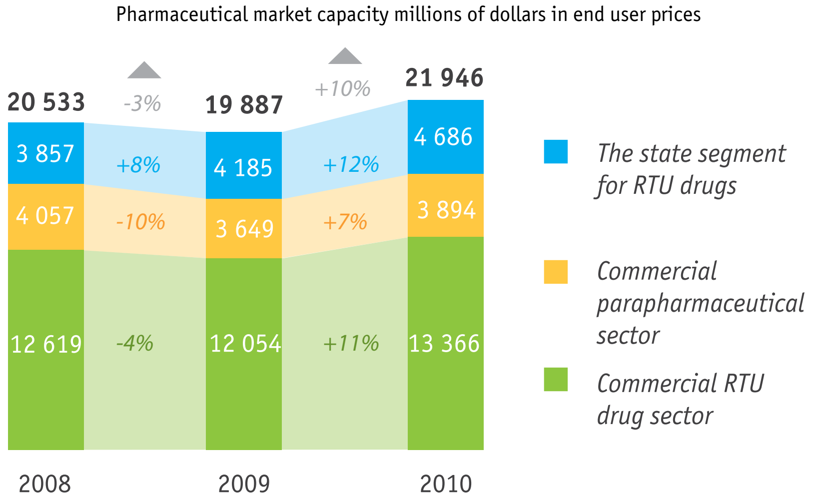
Pharmaceutical market capacity billions of rubles in end user prices



Source: DSM Group. **ISO 9001:2008**

Diagram 2

Pharmaceutical market capacity

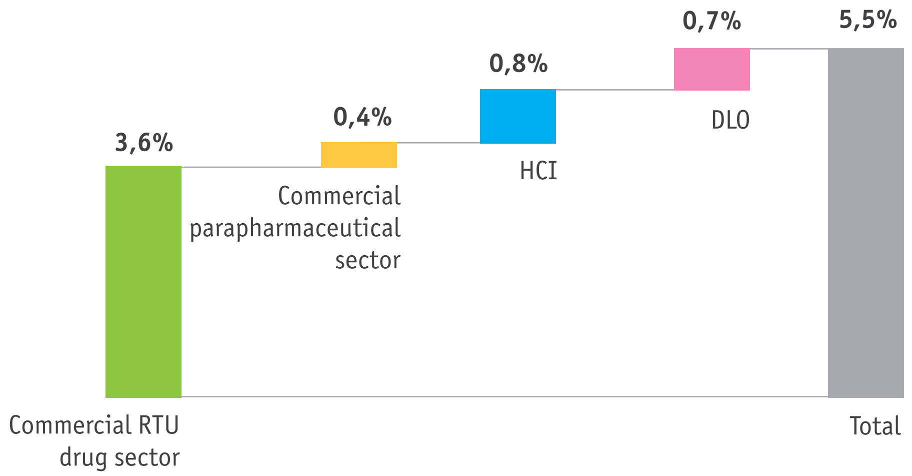


Source: DSM Group. **ISO 9001:2008**

Diagram 3 shows the shares contributed by different market segments to the overall growth of the pharmaceutical market.

Diagram 3

Structure of Pharmaceutical market growth in 2010



Source: DSM Group. **ISO 9001:2008**

The government continues to maintain a clear policy in the field of state drug provision of population, and does not reduce the items which are of social nature. In 2010, the share of state funds in the market amounted to about 21%. The segment has grown most rapidly among the others by +7%. At that, the drug purchase by medical institutions is growing faster (+10%), while in the drug reimbursement program the state "saves" through tender system (the drug supply volume increased by +5% in money terms).

But the commercial pharmaceutical segment has fully felt the post-crisis impact. Due to strict governmental control over drug inflation, the market has lost one of its main drivers: increase in drug prices in the commercial segment was minimal +1%, whereas in 30% of products (vital drugs) the prices have fallen by about -4%. Growth of consumption in kind by + 3% may be considered a positive factor. But the market did not "win back" the losses of 2010 to the full measure. In 2009 the sales volume in commercial segment amounted to about 406 billion rubles (13.4 billion dollars). This is only by 6% more than in 2009.

The second consecutive year the parapharmaceutical segment does not show high indices to which the market had become accustomed since 2005. In 2010, the growth of this segment was only 2% - the lowest value among all segments. In the post-crisis year, expenses of population for these very products were subject to sequestering and did not return to the level of 2008. Selective beauty product which is presented only in pharmacies (VICHY, LIERAC, etc) was affected at most. Sales volume in this group fell by almost 10%.

Volume of Russian pharmaceutical market compared to other countries

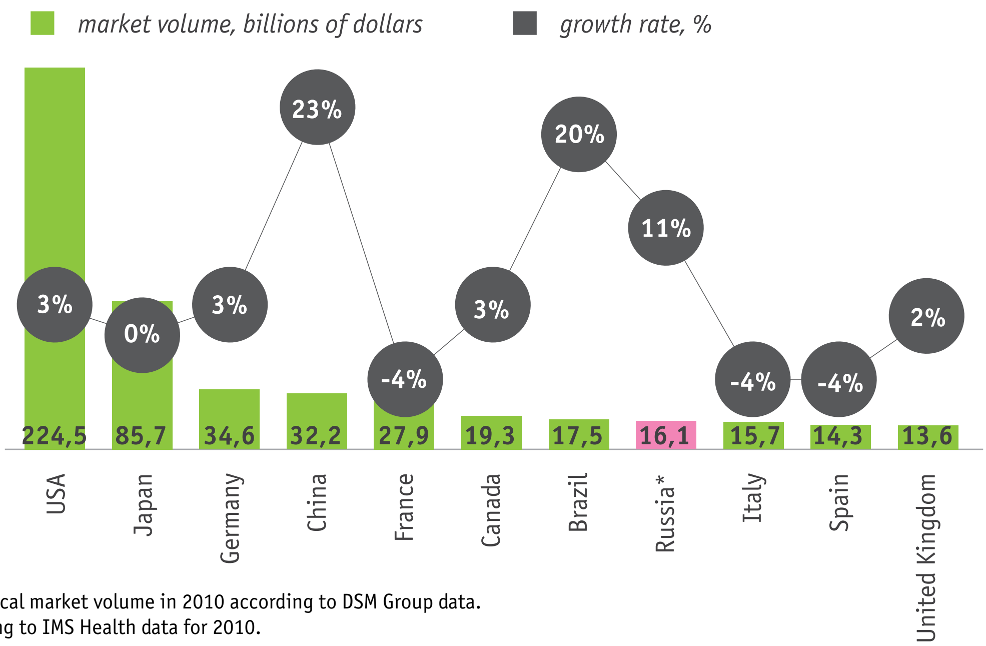
According to IMS HEALTH, the total drug sales of 14 major pharmaceutical markets in the world amounted to 513.1 billion US dollars for 12 months, from January to December 2010. As in previous months, the pharmaceutical market of Venezuela demonstrates the most active development; its sales growth rate amounted to more than 30% in money terms. High growth rates were recorded in the pharmaceutical markets of China, Argentina and Brazil.

According to our data, Russia belongs to one of 10 global pharmaceutical leaders with a share of about 3%.

Diagram 4 shows the ranking of several countries leading by retail RTU drug market volume in 2010.

Diagram 4

Retail RTU drug market volume in Russia and other countries in 2010



* Russian pharmaceutical market volume in 2010 according to DSM Group data.
Other markets according to IMS Health data for 2010.

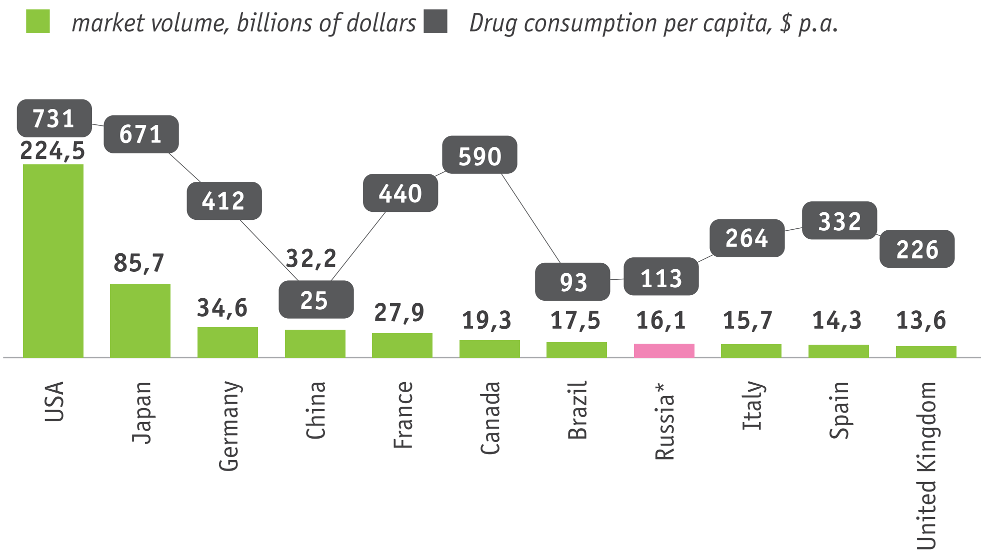
Source: IMS Health, DSM Group. **ISO 9001:2008**
Note: Drug pharmaceutical market = drug commercial segment + DLO

High growth rates of China contributed to the fact that the country is getting higher in the ranking every year. The year 2010 was not an exception: +1 position and 4th place. Brazil has pressed European countries such as Italy, Spain, and occupied the 7th line in the ranking.

Russian pharmaceutical market occupied the 8th place in the ranking in 2010.

Diagram 5

Drug consumption in Russia and other countries in 2010



Источник: IMS Health, DSM Group. **ISO 9001:2008**
Note: Drug pharmaceutical market = drug commercial segment + DLO

Despite the fact that Russian pharmaceutical market is one of the world's leading pharmaceutical markets, drug consumption per capita is not very high yet. In 2010, we were able to cross the threshold of 100 US dollars per person. But it should be noted that one of the objectives set by the government of Russia is to bring this figure to the average European indicator. Thus, in the next 10 years per capita consumption will increase 3-fold more.

In 2010, Russian commercial market lived in expectation of better. The results of 2009 allowed to believe that the financial and economic crisis will not affect the pharmaceutical segment. The positive attitude was also caused by the "swine flu" epidemic expected at the end of 2009. In November, the market has shown unprecedented growth - 32% compared to November 2008, sales volume has grown compared to October 2009, while the seasonality of past years showed a negative trend. The growth was mainly due to antiviral drugs. Drug sales were fueled by reports of fatal outcomes from influenza A/H1N1.

Positive expectations for 2010 assumed a high market growth rate. At the beginning of 2010 the situation has changed. Pharmacy warehouses were overstocked, and the situation with "swine flu" calmed down. As a result: January–February – no sales growth, March – quite small growth, summer – sales are traditionally low. Everyone was waiting for the fall and the flu epidemic, but it did not happen. Fuel to the fire was added by the government regulation of prices for vital and essential drugs - the new rules came into force on April 01, 2010.

The total growth in commercial sales of drugs was only 6% (the lowest value in the last decade). The capacity of the commercial drug market in 2010 amounted to 406 billion rubles in end user prices or 310 billion rubles in pharmacy purchase prices[1] (see Diagram 1). In dollar terms the segment figures correspond to 13.4 billion dollars in end user prices and 10.2 billion dollars in pharmacy purchase prices (growth 11%).

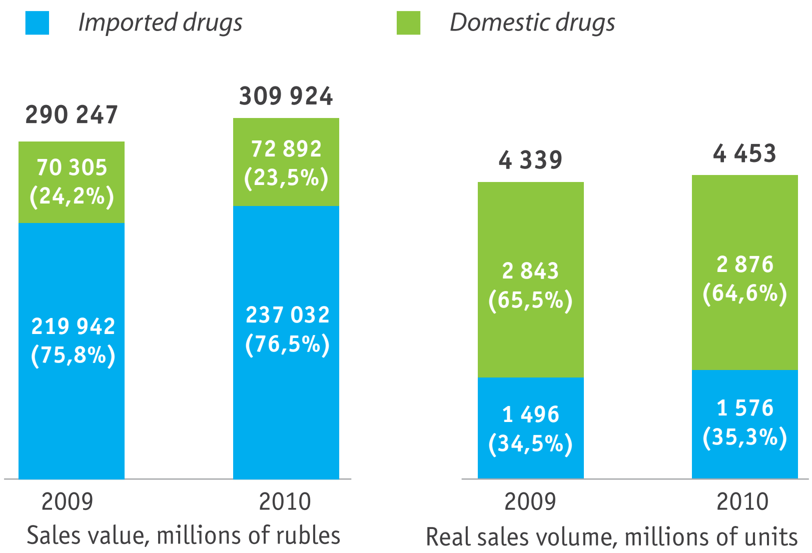
In 2011, the market should expect better results. This is evidenced by the growth in real volume of drug consumption. Even in 2010 the growth was at 3%. The forecasted drug inflation rate is 8%. The same growth rate is included in calculation during registration of prices for domestic drugs from the vital drugs list. We expect the growth of commercial RTU drug market by about 15% in 2011.

1. Proportion of imported and domestic drugs on commercial market

The structure of commercial RTU drug market by sales volumes of domestic and imported drugs is shown on Diagram 6.

Diagram 6

Proportion of imported and domestic drug sales



Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included

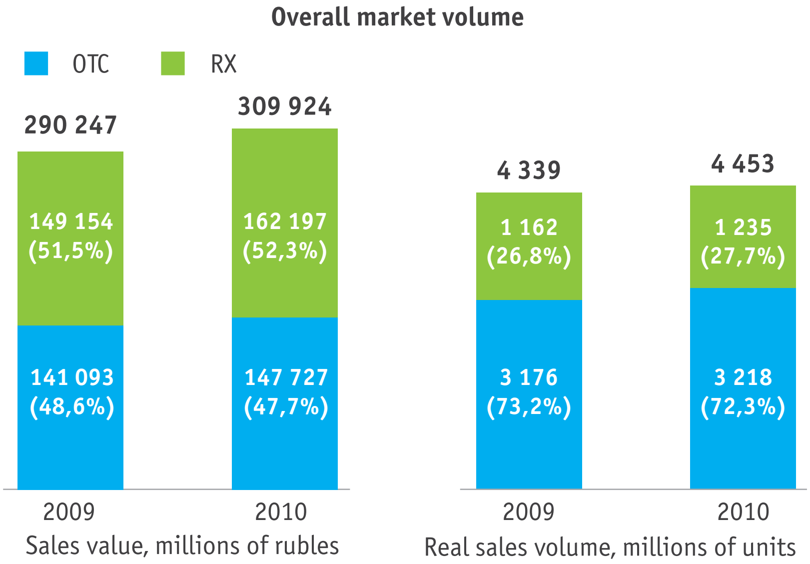
[1]Thereafter in "Commercial segment of RTU drugs" Section all volumes and prices are given in pharmacy purchase prices with VAT included.

2. Proportion of Rx and OTC drugs on commercial market

Proportion of Rx and OTC drugs by pharmacy sales is shown in Diagram 7.

Diagram 7

Proportion of Rx and OTC drug sales



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

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

In Russia, the shares of both Rx and OTC drugs were growing up in pharmacy sales in 2010. Traditionally, Rx drugs are growing slightly faster than OTC drugs. Compared to 2009, OTC drugs increased by 4.7%, while Rx drugs increased by 8.7%. In real terms the dynamics is similar (OTC – by 1.3%, Rx – by 6.2%). The share of Rx drugs in Russia increased by 0.9% in the total sales value and amounted to 52.3%.

OTC drugs are observed to prevail in Russia in real terms. In 2010, the share of OTC drugs decreased by 0.9% and amounted to 72.3%.

It should be noted that the average price of Rx drug unit amounted to 131 rubles in 2010, and OTC drug unit price was 3-fold lower and amounted to 46 rubles.

3. Sales structure by ATC groups on commercial market

Proportion of 1st level ATC groups in pharmacy sales in Russia is shown in Table 1.

Table 1

Sales structure by ATC groups on commercial market 2010

First level ATC groups	Sales value, millions of rubles	Group share in sales value, %	Real sales volume, millions of units	Group share in real sales volume, %
A: Alimentary tract and metabolism	60 968	19,7%	808	18,2%
N: Nervous system drugs	39 729	12,8%	919	20,6%
C: Cardiovascular system drugs	39 142	12,6%	404	9,1%
R: Respiratory system drugs	36 246	11,7%	592	13,3%
M: Musculoskeletal system drugs	22 691	7,3%	250	5,6%
G: Genitourinary system drugs and sex hormones	22 425	7,2%	75	1,7%
J: Antibacterials for systemic use	21 519	6,9%	244	5,5%
D: Dermatologicals	17 471	5,6%	501	11,3%
[~] Without allocation	13 855	4,5%	303	6,8%
L: Antineoplastic and immunomodulating agents	13 209	4,3%	63	1,4%
B: Agents affecting blood and blood forming organs	8 752	2,8%	107	2,4%
S: Agents affecting sensory organs	8 712	2,8%	116	2,6%
H: Systemic hormonal preparations (excluding sex hormones)	2 301	0,7%	18	0,4%
V: Various	1 703	0,5%	30	0,7%
P: Antiparasitic products, insecticides and repellents	1 203	0,4%	23	0,5%

Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: **the sales volume is shown in pharmacy purchase prices with VAT included.**

Note: [~] drugs without allocation (homeopathic preparations, plant and animal drugs, etc.)

In 2010, the ATC-group [A] "Alimentary tract and metabolism" (19.7%) kept the leading position, as in previous periods. Increase of the sales value by 8.7% is observed compared to 2009. By the number of sold units the market has not noticeably changed – the growth is quite small (less than 0.1%). Thus, we can conclude that there was an increase in the weighted average price per standard unit. And here the price of imported drugs (which cover 82% of value sales and 41% of real sales in the group) grew by 15.9%, and domestic drug price - only by 3.7%.

Almost 18% of ATC group [A] sales value is covered by subgroup [A11] "Vitamins". This group includes vitamins, multivitamin and vitamin-mineral complexes, among which the most money were spent by pharmacies for purchase of VITRUM series (12.4% of sales in group [A11]). Domestic line COMPLIVIT takes the 4th place (7.8%) in vitamins value ranking. The low-cost domestic product "Ascorbic acid with glucose" is a leader by the number of sold packages (18.6% of sales in [A11]).

The first place in real terms among subgroups in group [A] is occupied by antidiarrheal drugs ([A07]) – 27.7% of sales across the group. Well known to consumers thanks to active promotion (including advertising on TV), LINEX heads the value ranking [A07] - 25% of sales of all antidiarrheal drugs. However, in the real sales ranking LINEX is ranked on the second position, and yields considerably to ACTIVATED CARBON – 65.4% of sales [A07].

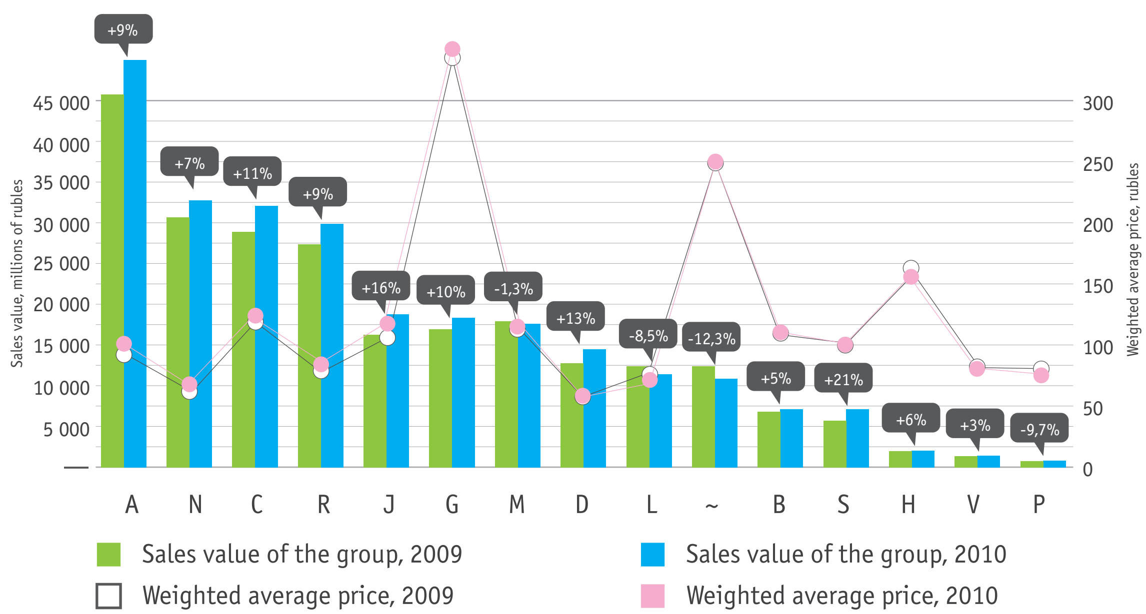
Group [N] "Nervous system drugs" and group [C] "Cardiovascular system drugs" retained their positions in the ranking of ATC groups on the commercial market and took the second and the third places, respectively. PENTALGIN is the leader of the ranking within group [N] (5%), it has regained its leadership position lost in 2009. Compared to the last year PENTALGIN sales increased by 7.3% in rubles and by 11.3% in units. TERAFLU, ranked first in 2009, moved to one position down. Unlike PENTALGIN, TERAFLU sales decreased (-6.8% in rubles, – 14.3% in units). In 2009, higher sales of this drug were caused by swine flu epidemic, in 2010 sales have returned to normal level.

In group [C] the leader remained unchanged - the ranking continues to be led by CONCOR (6.1%). ENAP, which in 2009 occupied the 2nd place, in 2010 dropped to the third position. Decrease in ENAP share is related both to the decrease in sales of the drug itself, and to increased competitor's sales (enalapril, vero-enalapril, etc.).

Unlike 2009, when most of the ATC groups, except for groups [A] "Alimentary tract and metabolism" and [L] "Antineoplastic and immunomodulating agents", demonstrated a decrease in real sales volume, in 2010 almost all ATC group grow on this indicator. The biggest real sales growth is for group [S] "Sensory organs drugs" (+19.5%). Sales growth was driven by three groups of drugs: sulfacetamide drugs (+4.8%), taurine (+16.7%) and tropicamide (+169.5%).

Diagram 8

Structure of commercial RTU drug market in 2009-2010



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

The structure of the commercial market by ATC groups is rather stable from year to year. The increase in the capacity and average cost of unit in ATC groups is shown in Diagram 8.

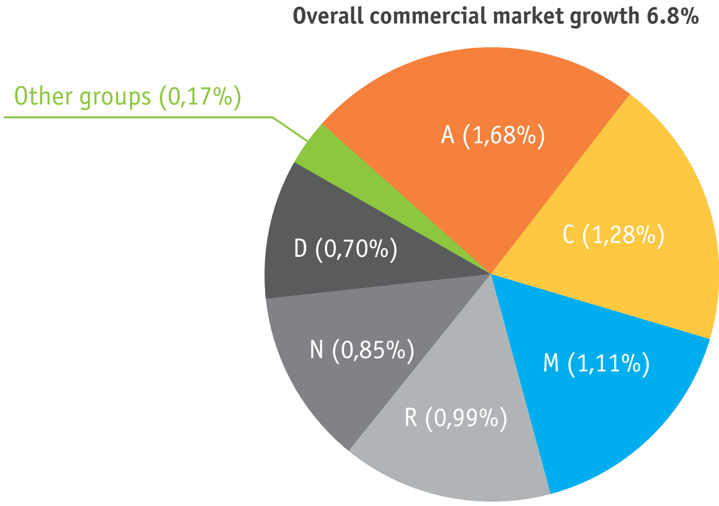
The biggest sales growth in value is for group [S] "Sensory organs drugs" (+21). In 2010, a substantial contribution to increasing sales of this group was made by TROPICAMIDE, which is normally used in ophthalmology for diagnostic purposes. Unfortunately, however, this drug is purchased by people suffering from drug addiction for completely different purposes. Despite its prescription status, this drug can be rather freely purchased in pharmacies. Most likely, the high sales of TROPICAMIDE are caused by such inappropriate use, since a need for this diagnostic drug may hardly increase for other reasons. Low price (about 75 rubles) adds "popularity" to this drug among the above categories of population.

The highest price of weighted average unit is seen for groups [G] "Genitourinary system drugs and sex hormones" and [L] "Antineoplastic and immunomodulating agents" – about 200 rubles that speaks of expensive drug predominance in the above groups. Especially it concerns group [L], which includes antineoplastic drugs, some of them have price of 60 thousand rubles per unit and more.

The contributions of different ATC-groups to the overall growth of the commercial market was determined using weighted increase index, the value taking into account the share of each ATC-group multiplied by its growth rate (see Diagram 9).

Diagram 9

Weighted growth of ATC-groups



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**

In 2010, the drugs of the groups [A] "Alimentary tract and metabolism", [C] "Cardiovascular system drugs" and [M] "Musculoskeletal system drugs" made the largest contribution to the increase of the value capacity of the commercial RTU drug market. In total, it is 4.1% - more than 60% of the market. It is noteworthy that only group [A] is the market leader, group [C] occupies the third place, and group [M] – only 5th position of the ranking.

4. Manufacturers on the commercial market

Table 2 shows TOP-20 manufacturing companies leading by the sales volume on Russian commercial market in 2010.

Table 2

TOP-20 drug manufacturing companies by sales volume on Russian commercial market in 2009-2010

2010 ranking	Change	Manufacturer	Sales value, millions of rubles 2010	Sales value increase	Share
1	-	PHARMSTANDART	14 978	-2,2%	4,8%
2	-	SANOFI-AVENTIS	13 605	11,9%	4,4%
3	-	BERLIN-CHEMIE /A.MENARINI/	12 385	14,2%	4,0%
4	2	NYCOMED	10 418	18,2%	3,4%
5	-1	BAYER	10 357	6,8%	3,3%
6	-1	GEDEON RICHTER	9 540	7,6%	3,1%
7	-	NOVARTIS	7 916	-6,0%	2,6%
8	-	SERVIER	7 885	5,4%	2,5%
9	-	PFIZER	7 815	10,4%	2,5%
10	-	LEK D.D.	7 653	8,7%	2,5%
11	-	TEVA PHARMACEUTICAL	6 564	5,2%	2,1%
12	-	KRKA	6 235	5,7%	2,0%
13	-	SOLVAY PHARMACEUTICALS B.V.	5 902	16,1%	1,9%
14	-	BOEHRINGER INGELHEIM	5 313	5,9%	1,7%
15	-	SCHERING-PLOUGH	5 135	2,4%	1,7%
16	2	ASTELLAS PHARMA INC	4 776	25,5%	1,5%
17	-1	GLAXOSMITHKLINE	4 767	-0,3%	1,5%
18	-1	DR.REDDY'S LABORATORIES LTD	4 653	12,8%	1,5%
19	-	NIZHPHARM OAO	4 288	13,0%	1,4%
20	2	ZENTIVA A.S.	4 223	36,7%	1,4%

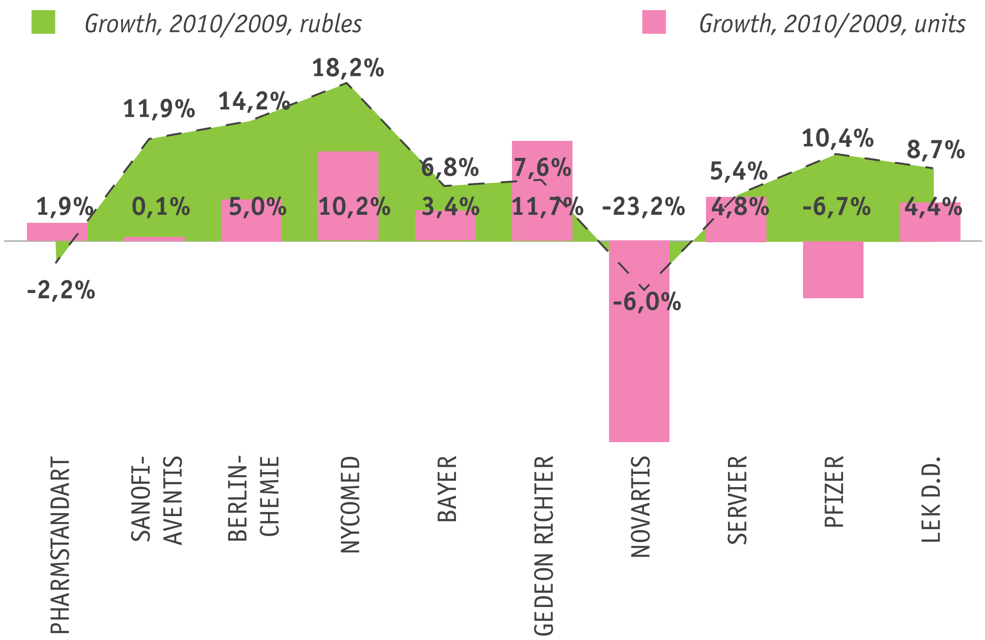
Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: **the sales volume is shown in pharmacy purchase prices with VAT included.**

In 2010, about 1,040 players (599 domestic and 441 imported) were present on the Russian pharmaceutical market.

Totally, TOP 20 manufacturers cover 47% of RTU drug commercial sales. Compared to 2009, the total share of TOP 20 remained virtually unchanged.

PHARMSTANDART maintained its leading position in the ranking, but SANOFI-AVENTIS, which occupied the second place, lost to the leader just a little – only 0.4% by the share. In addition, unlike PHARMSTANDART, which had decreased share and sales compared to the previous year, SANOFI-AVENTIS showed growth both by share (+0.2%), and in absolute terms (+11.9%) Sales drop of PHARMSTANDART is associated with lower sales volume of one of the key drugs in its portfolio - ARBIDOL (-19.2%), demand for which in 2009 was excessively high due to the situation with the "swine" flu. Sales of AMIKSIN, another influenza drug of this company, reduced significantly (-25.2%). However, sales growth of PENTALGIN (+7.3%), FLUCOSTAT (+7.7%), and AFOBAZOL (+22.4%), whose total share of sales in sales value is greater than 20% of the whole product range of the company, did not allowed PHARMSTANDART to lose its first place in the ranking.

RTU drug manufacturers growth on commercial market



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

In addition to PHARMSTANDART, another Russian company NIZHFARM joined TOP 20, which occupied the 19th place. However, this company is "Russian" only by location of production facilities – the company is owned by the international group STADA Arzneimittel AG, which is represented in Russia by holding STADA CIS, which includes MAKIZ-PHARMA in addition to NIZHFARM. Among the manufacturers included in the TOP 20, the highest increase has ZENTIVA AS (+36.7%). The growth was ensured by successful sales of LOZAP (+64.9%), LINDAXA (+82.2%) and PINOSOL (+27.8%), which share in 2010 covered more than half of drug sales of the company in the commercial market.

Significant drop in sales of NOVARTIS is associated with a significant decrease in sales of one of the leading company brands OTRIVIN (-55%). OTRIVIN (xylomethazoline) belongs to the list of vital drugs, and therefore was supposed to have a registered price by April 01. However, NOVARTIS was not able to register this drug by the market price, therefore the drug has not been sold after April 01, since pharmacies did not have the right to sell it. Nevertheless, by the end of 2010 the OTRIVIN price was registered, and its sales began to grow again.

5. Drugs on the commercial market

Table 3 shows TOP-20 drug brands leading by the sales volume on Russian commercial market in 2010.

Table 3

TOP-20 drug brands by sales volume in value terms on Russian commercial market in 2009-2010

2010 ranking	Change	Brand name	Sales value, millions of rubles	Sales value increase	Share
1	-	ARBIDOL	4 533	-19,2%	1,46%
2	-	ESSENTIALE	3 438	27,2%	1,11%
3	1	VIAGRA	2 729	18,7%	0,88%
4	1	ACTOVEGIN	2 632	16,6%	0,85%
5	1	NUROFEN	2 556	16,1%	0,82%
6	6	CONCOR	2 403	30,3%	0,78%
7	2	LINEX	2 263	8,9%	0,73%
8	3	PENTALGIN	1 982	7,3%	0,64%
9	4	MEZYM FORTE	1 959	7,8%	0,63%
10	-3	TERAFLU	1 959	-6,7%	0,63%
11	4	NO-SPA	1 828	10,8%	0,59%
12	-9	OSCILLOCOCCINUM	1 801	-28,3%	0,58%
13	10	ALFLUTOP	1 744	31,7%	0,56%
14	4	DETRALEX	1 666	16,8%	0,54%
15	4	MOVALIS	1 618	13,6%	0,52%
16	-8	ANAFERON	1 589	-23,9%	0,51%
17	-3	ENAP	1 581	-7,1%	0,51%
18	8	MEXIDOL	1 509	23,7%	0,49%
19	-2	SUMAMED	1 507	2,6%	0,49%
20	-4	VITRUM	1 484	-7,7%	0,48%

Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

In total, TOP-20 leading brands cover 13.8% of sales value of the RTU commercial segment. Concentration decreased slightly.

Although in comparison with 2009 ARBIDOL sales decreased significantly (-19.2%), this flagship PHARMSTANDART drug retained the 1st place in the brands ranking on the commercial market. In 2009, sales of ARBIDOL, as well as those of other similar drugs have been greatly overstated due to the expanded "antiinfluenza campaign". In 2010, when the situation with influenza and other acute respiratory viral infections was much quieter, the sales volume of drugs for the treatment of these diseases returned to its previous level. In particular, a homeopathic anti-influenza drug OSCILLOCOCCINUM, which in 2009 occupied the third place, occupies only 12th line in 2010. Symptomatic drug TERAFLU has also lost several positions in the ranking by moving down from 7th to the 10th place. And domestic ANAFERON, which occupied the 8th place in 2009, in 2010 moved to 16th position.

ESSENTIALE and VIAGRA, which occupy the 2nd and 3rd place in the TOP 20, in contrast, have significantly increased their sales (+27.2% and +18.7% respectively), VIAGRA has risen one line up.

Among the drugs included in the TOP-20 by value, only two were able to enter the TOP-20 by the number of sold units: PENTALGIN (17th place) and ARBIDOL (20th place). The ranking in real terms is headed by ACTIVATED CARBON (its share is 3.6%). It should be noted that the TOP-20 by units is composed by almost 100% of "traditional" drugs, those which are sold only in Russia and former Soviet countries. Nevertheless, these drugs do not become less popular year by year primarily due to the low price and old, you can say "age-long", prominence among consumers.

6. VITAL DRUGS

At the end of December 2009 the list of vital drugs for 2010 was adopted. There were some changes compared to the previous list. This list has not yet received an unambiguous assessment by the pharmaceutical market participants. In comparison with the list of 2009 the list of vital drugs was reduced by approximately 25%. According to the Ministry of Health Care and Social Development, the "drugs with low level of clinical efficacy" as well as diagnostic tools and disinfectants were excluded from the new list. Among those excluded drugs METAMIZOLE SODIUM should be noted, known to pharmacy visitors under the brand ANALGIN. According to the monitoring results, in 2009, the drugs of 562 INNs listed in vital drugs list were sold. In 2010, 423 INNs were registered. There were 65 new INNs, 208 INNs were excluded. Compared to 2009 list, the share of domestic drugs has increased (almost 68% of names).

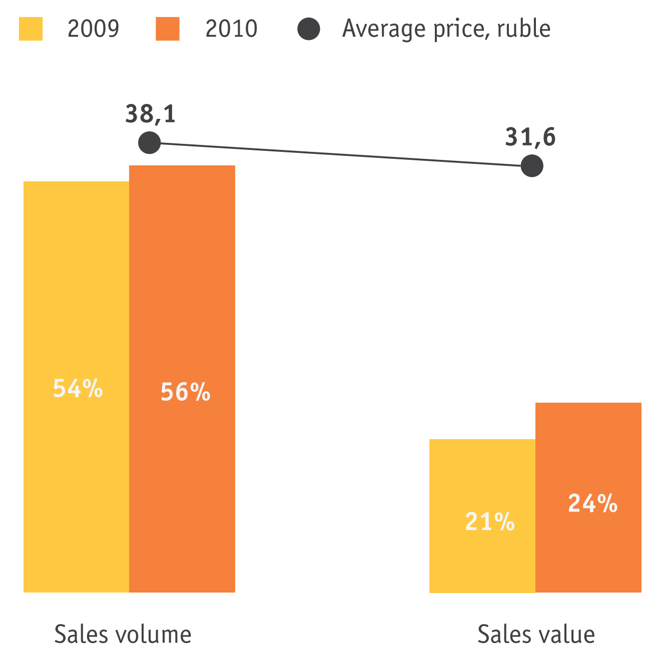
At the same time the following drugs were excluded from the list: ALL multivitamin drugs and vitamin and mineral complexes (UNDEVIT, GEKSAVIT, COMPLIVIT, etc.), nitroxoline drugs (5-NOC), certain antibiotics (LOMEFLOXACINE), antiviral drugs, in particular the drug used for prevention and treatment of influenza (RIMANTADINE), vaccines for prevention of poliomyelitis, hepatitis B, etc. New list is shorter than the previous one.

ETHANOL in solution for external use, in contrast, entered the new list. The well-known ARBIDOL expanded the list by dosage forms for adults. From the anti-influenza drugs homeopathic drug ANAFERON for children was also included to the list.

It should be noted that many domestic drugs were included to the list. As a result the situation in the balance of imported and domestic drugs became more similar to the market average - 24% in value terms, and it was not possible to increase significantly the market share in real terms.

Diagram 11

Share of domestic drugs in vital drugs list

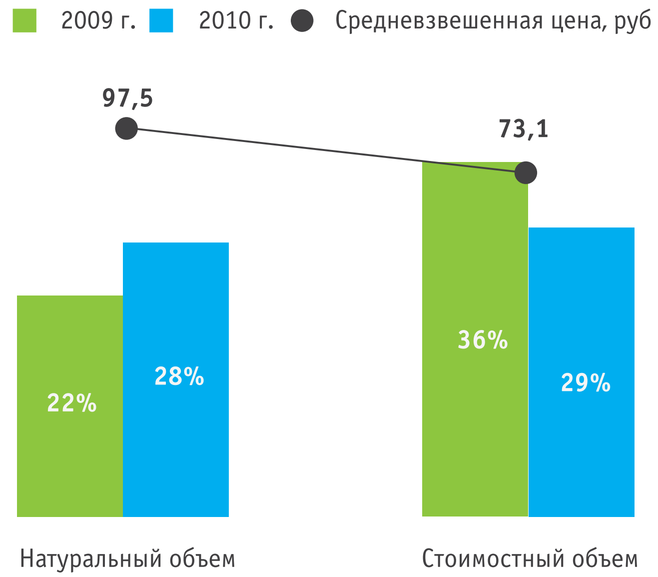


Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**

Inclusion of domestic drugs to the list and exclusion of imported "expensive" INNs led to the fact that the vital drugs list went down in value. The average unit cost has fallen by almost a third, which has led to the decreased share of vital drugs in pharmaceutical sales.

Diagram 12

Vital drugs list share on commercial market



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**

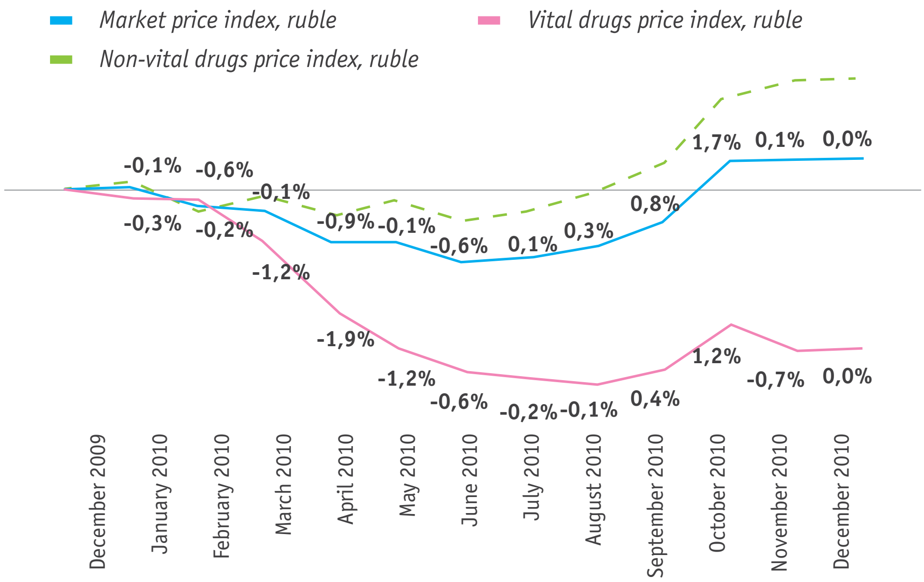
The weighted average cost per vital drug unit amounted to 73 rubles, while weighted average cost of domestic drug was about 31 rubles, and that of imported drug was almost 4-fold higher (126 rubles).

In addition to the new vital drugs list, starting from April 01, 2010, the new rules in the pricing of items included in this list came into force. Retail charge for the drug is strictly regulated and is no longer calculated by the manufacturer selling price, but by the price registered by the Ministry of Health. The main question for everyone – what has changed in the market, and what is the price of all innovations?

In 2010 the total vital drugs volume in commercial market segment amounted to 90 billion rubles and 1 billion units. Compared to 2009 the rise of the pharmaceutical segment is observed, both in sales and in real terms. However, it is not entirely correct to compare these two periods because the list of drugs included to the vital drugs in 2009 and 2010 differs significantly. For drugs included to the list in 2010, the growth was 2.5% in rubles and 3.6% in units compared to 2009 (rates below market values).

But decreased prices of drugs included to the vital drugs may be considered a positive moment.

Price index dynamics on commercial market in 2010



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**

Over 12 months of 2010 vital drugs prices fell by -4.7%. At that, the main decrease by -2% was in April 2010, when a new pricing system came into force. Drugs not included in the vital drugs list did not fall in price, and in the season the price growth for this group of drugs was observed, and compared to December 2009, the price index rose by 3%.

The vital drugs ranking by INN is led by ARBIDOL. It should be noted that this is one of the few players who entered the list by trade name, and not by INN, like most drugs. In 2010, apart from ARBIDOL children's dosage forms (as in the earlier list) the vital drugs list includes all other forms, therefore this drug occupies the 1st place and the high share (more than 5%). Inclusion to the list of all ARBIDOL dosage forms is due to the fact that this drug is recommended by the Ministry of Health Care and Social Development as one of the "drugs of choice" for prevention and treatment of influenza, including swine flu epidemic, which was expected in 2009 throughout the territory of the Russian Federation. In addition to ARBIDOL, the list includes other drugs of similar purpose, for example INGAVIRIN and KAGOCEL. The second place in the vital drugs ranking is occupied by pancreatin drugs, among which the best-selling is MEZIM FORTE. XYLOMETHAZOLINE is the last in the Top 3 leaders (leader by INN is TYZIN).

Ranking of INN included to the vital drugs

	INN	% from vital drug sales, ruble	Volume, mln ruble	Leader among INN brands
1	ARBIDOL (TN)	5,02%	4 533	ARBIDOL
2	PANCREATIN	4,10%	3 700	MEZYM FORTE
3	XYLOMETHAZOLINE	3,48%	3 143	TYZIN
4	BISOPROLOL	3,00%	2 712	CONCOR
5	ENALAPRIL	2,75%	2 480	ENAP
6	AZITHROMYCIN	2,48%	2 240	SUMAMED
7	FLUCONAZOLE	2,23%	2 012	FLUCOSTAT
8	AMOXICILLIN+CLAVULANIC ACID	2,22%	2 010	AMOXICLAV
9	DROTAVERINE	2,21%	1 997	NO-SPA
10	ETHYLMETHYLHYDROXYPYRIDINE SUCCINATE	1,82%	1 643	MEXIDOL
11	OMEPRAZOLE	1,75%	1 584	OMEZ
12	ADEMETIONINE	1,66%	1 503	HEPTRAL
13	LIZINOPRIL	1,59%	1 439	DIROTON
14	KETOROLAC	1,53%	1 385	KETOROL
15	AMLODIPINE	1,47%	1 325	NORMODIPINE
16	IBUPROFEN	1,41%	1 274	NUROFEN
17	INDAPAMIDE	1,41%	1 271	ARIFON
18	CETIRIZINE	1,37%	1 238	ZYRTEC
19	AMOXICILLIN	1,33%	1 201	FLEMOXIN
20	BETAHISTIN	1,31%	1 185	BETASERC

Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**

What are the results of innovations on the vital drugs list? It was not possible to sell such well-known drugs as IMMODIUM, DLYANOS for a long time. Manufacturers faced the problem of registering prices for these drugs and could not yet find a compromise with the state. But besides the manufacturers the consumers have suffered as well, who have become accustomed to these drugs and sometimes can not do without them.

From April 01, pharmacies have additional work: revaluation of the remainder, hanging new price tags, control over the correct definition of the prices of all 7,000 items from the vital drugs list. It should be noted that they have to control not only themselves but also the distribution prices, as finally the total price for the position is verified. All this is also imposed to monitoring of the correct allocation of the drug in the price segment, since the retail charge for the drug depends on this figure. Pharmacies have sustained substantial economic losses. Introduction of new pricing rules resulted in reduction of revenue by 2-4%. In addition to economic losses pharmacies may lose licenses for improperly vital drug pricing.

After one year of work under new rules, vital drug segment name was changed. Now this group of drugs is called "vital and essential drugs". This is the most harmless change.

7. Segments by price on the commercial market

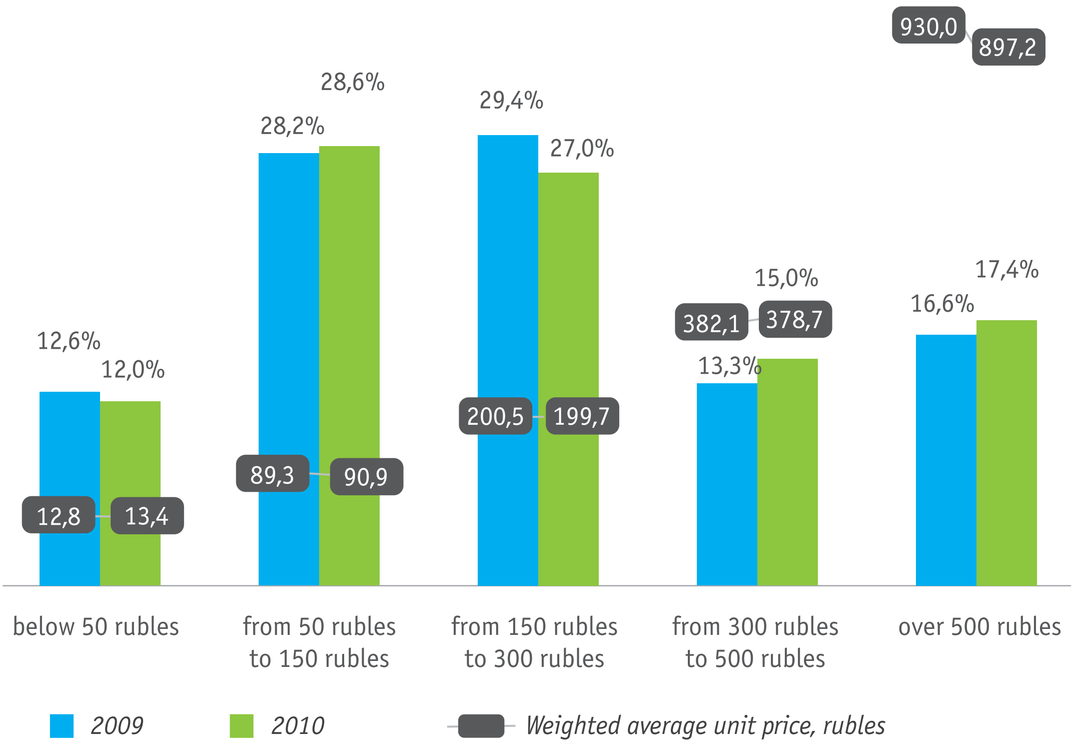
In 2010, an average cost of RTU drug unit on the commercial market increased by 4% and amounted to 69.6 rubles.

Let us have a look at the components of this value.

The commercial market structure and average cost per unit in different price categories in 2009-2010 are presented in Diagram 14.

Diagram 14

The structure of commercial RTU drug market by price categories



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

The tendency to switch to higher-priced drugs is maintained in 2010 – the share of drugs priced lower than 50 rubles is 12%. In spite of that, this segment has still the greatest capacity in real terms – 65%.

In 2010, the group of drugs priced from 150 to 300 rubles also decreased by 2.4% in share, losing the leading position to the segment priced from 50 to 150 rubles.

Other groups increased insignificantly by sales value. The maximal increase of share by 1.7% was observed in the group of drugs priced from 300 to 500 rubles.

It should be said that the redistribution in the drugs consumption is related not to changes in consumer preferences in favor of the more expensive drugs, but to RTU drug transfer from one price category to another caused by the drug price growth. The sales in real terms are falling down only in the segment priced from 150 to 300 rubles; the other price segments are growing by units. Market fears that with the introduction of new pricing rules for vital drugs the cheap drugs will reduce their share proved to be groundless.

8. Price index on the commercial market

To make an objective estimate of drug price change on the commercial market, price index based upon a fixed list of ready-to-use drugs was considered[2].

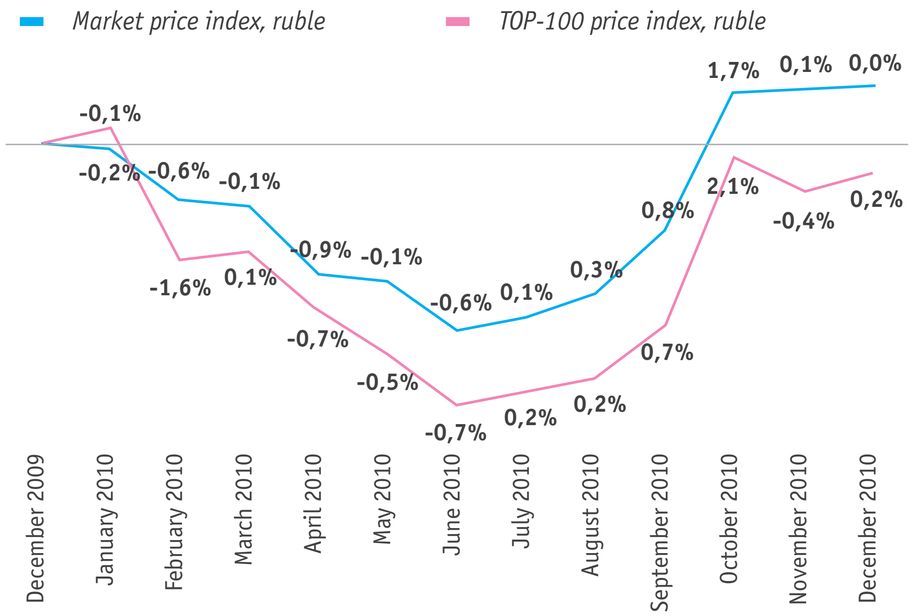
In 2009, price index for RTU drugs amounted to 16.2% compared to 2008. Substantial price growth that began in September and October 2008 continued in the beginning of 2009, when the ruble value decreased significantly versus foreign currencies – dollar and Euro.

In 2010, such growth was absent. The market exists under close state supervision over drug prices and ruble "strengthening" against the currency basket. The outcome appeared quickly. Price index in the commercial segment of RTU drugs was only 0.7%.

The price rise of the most popular drugs on the market was slightly lower: in 2010 the price index of the TOP-100 brands amounted to 0.4%.

Diagram 15

Change in prices of RTU drugs on the Russian commercial market in 2010



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**

In 2010, the changes in prices for domestic and imported drugs were not significantly different. The value of these parameters amounted to 0% and 1% respectively. In summer months, prices for domestic drugs fell much more than for the imported.

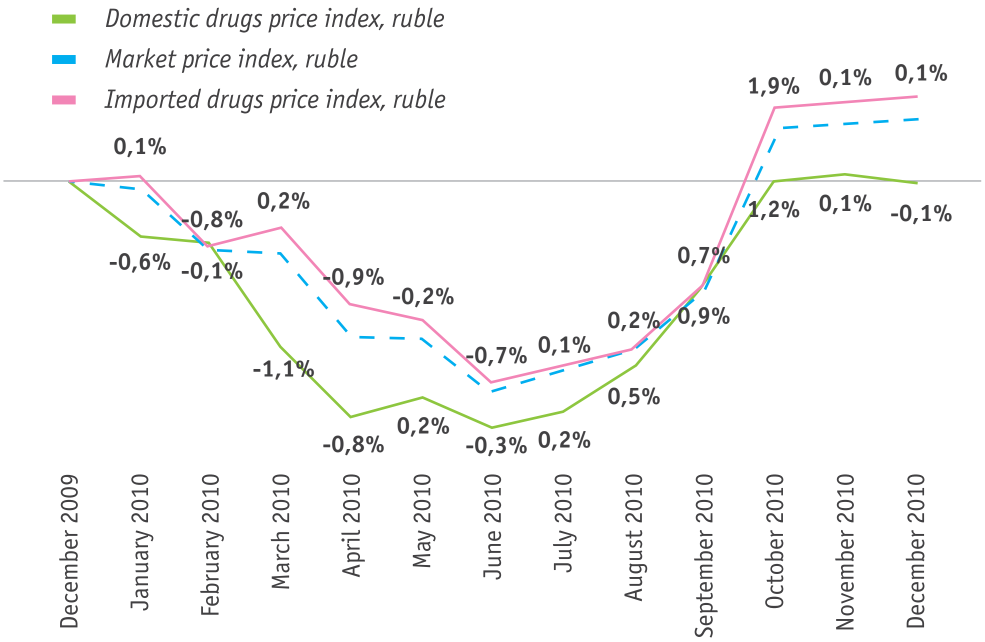
Starting from September 01, free pricing for a group of drugs not related to the vital drugs list was allowed. Since the imported drugs in general are more expensive and thus profits for the distribution chain are higher than from domestic drugs, the prices of imported non-vital drugs raised primarily. As a result, over 4 months the prices for imported non-vital drugs rose by 3%, whereas the increase in prices for domestic drugs was about 2%.

[2] Price index for the current year was calculated on the basis of intersected list of all full names of drugs present on the market in the previous year.

The price index for imported and domestic drugs in 2010 is shown in Diagram 16.

Diagram 16

Price index for drugs of domestic and foreign manufacturers on the Russian commercial market in 2010



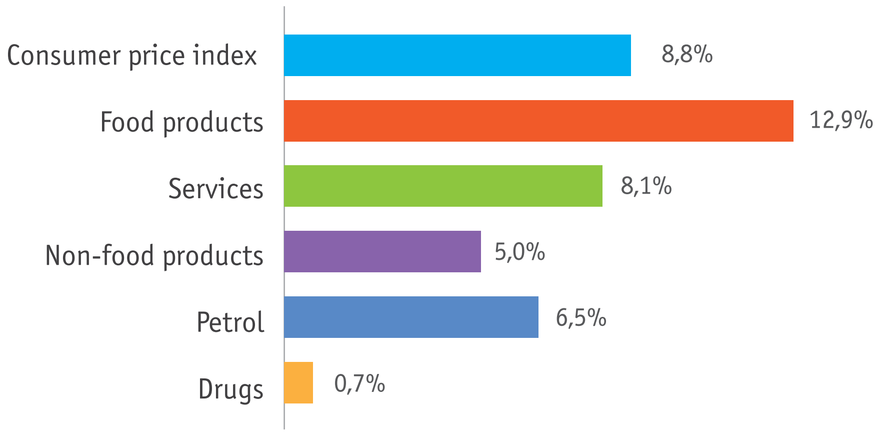
Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**

According to the State Statistics Committee (SSC), drugs cover about 2.07% of the base structure of consumption expenditure of Russian population (growth by almost 0.5% compared to 2009). Thus, the SSC raises the importance of drugs in consumer spending.

Diagram 17 shows the overall consumer price index and price indices for various categories of goods and services.

Diagram 17

The index of consumer prices in Russia (December 2010 compared to December 2010)



Source: DSM Group. **ISO 9001:2008,** Goskomstat

In 2010, the overall consumer price index amounted to 8.8% (same as in 2009) with the highest price rise observed in the food segment (12.9%). Drug prices growth was the lowest (0.7%), and the SSC is more optimistic and gives a negative inflation rate of about -0.9% (but their calculation does not cover all the drugs).

9. New drugs on the commercial market

Drug segment is much more stable in its products range as it is much more complicated to market a new drug than nutritional supplements (NS) or any other parapharmaceutical product. However, despite this, new drugs appear in the pharmacies every year – year 2010 was no exception.

In 2010 more than 250 new drug trade names appeared in the Russian pharmacies. Compared to 2009, this figure increased almost 1.5-fold (in 2009, around 180 drugs appeared in pharmacies).

Total sales volume of new products amounted to 328 million rubles and 1.7 million units, which is 0.1% of sales value and 0.04% of real pharmacy sales. The weighted average cost per standard unit of the new drug amounted to about 192 rubles.

Most of the new drugs are produced by foreign manufacturers, the Russian manufacturers brought to market 79 brands in 2010.

The largest sales volume among the Russian innovations has NEUROX manufactured by ZAO SOTEX. And CANONPHARMA is a leader among the domestic manufacturers by the number of new drugs (7 new drugs).

Table 5

TOP-20 new trade names in 2010 on the commercial market of the Russian Federation

Position No	Brand name	Company	Volume, mln ruble	Date of appearance in pharmacies
1	PARTOBULIN	BAXTER HEALTHCARE CORP	41,5	February 2010
2	AVAMIS	GLAXOSMITHKLINE	23,0	July 2010
3	NIQUITIN	GLAXOSMITHKLINE	14,8	May 2010
4	PERINEVA	KRKA	14,3	April 2010
5	HOMEOSTRES	LABORATOIRES BOIRON	12,8	February 2010
6	UROTOL	ZENTIVA A.S.	12,6	March 2010
7	HYDROVIT	NUTRICHEM DIET & PHARMA GMBH	11,8	March 2010
8	NEUROX	ZAO PHARMFIRM SOTEX	10,0	February 2010
9	CINOCAP	PHARMSTANDART OOO	9,7	February 2010
10	LEVOLET R	DR.REDDY'S LABORATORIES LTD	9,7	February 2010
11	PRADAXA	BOEHRINGER INGELHEIM	8,7	April 2010
12	BOBOTIK	POLFA, TERPOL	8,1	February 2010
13	GOLDLINE	RANBAXY LABORATORIES LTD	8,1	April 2010
14	LESPEFRIL	VIFITEH ZAO	7,1	May 2010
15	COMBINIL-DUO	PROMED EXPORTS PVT LTD	6,9	March 2010
16	BINELOL	BELUPO	6,5	February 2010
17	PRESTANCE	SERVIER	6,1	October 2010
18	NIPERTEN	KRKA	5,8	June 2010
19	LADYBON	ZENTIVA A.S.	4,7	May 2010
20	GYNOFLOR E	HAUPT PHARMA BERLIN GMBH	4,4	August 2010

Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**

Sales leader among the new drugs became PARTOBULIN used for prophylaxis of Rhesus-conflict in Rh-negative women. By the end of 2010, sales of this drug amounted to 41.5 million rubles, which is 1.5-fold more than AVAMIS sales, which occupied the second line. The third-ranked drug is NIQUITIN used for the treatment of nicotine addiction.

The period when the drug reimbursement program was "on everyone's lips" is over. 2010 for the DLO was calm and passed without any major problem, which could affect the program implementation.

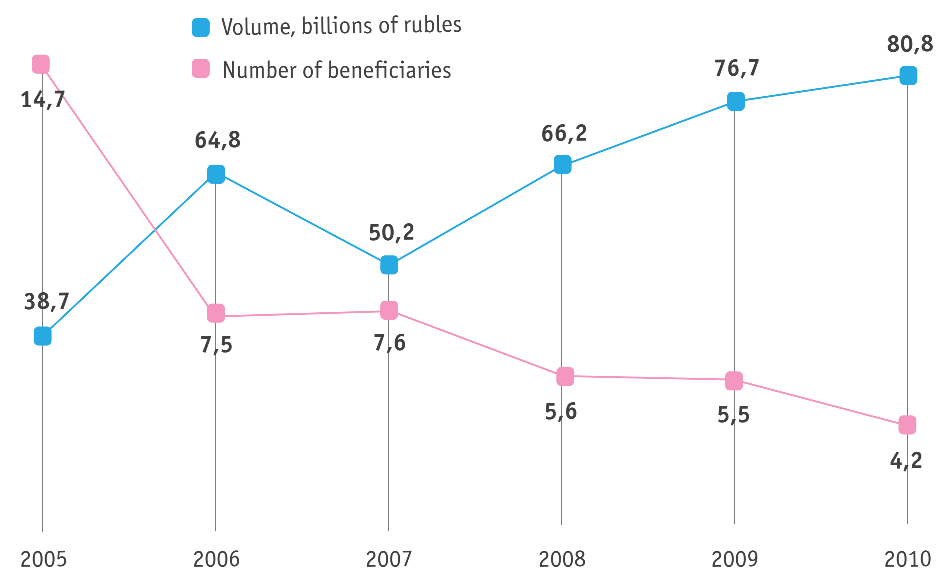
Now it is the sixth year the program operates in Russia. The basic mechanisms of the program work without fail. Starting from January 01, 2008, drug reimbursement program is divided into two parts: essential drug reimbursement sub-program (ONLS) implemented by the regions that perform procurement of drugs, seven nosologies program, program of expensive drugs procurement for the treatment of very severe diseases (VZN) operate at the federal level.

In 2010, 88.4 billion rubles were allocated for purchasing drugs for beneficiaries. Nominal increase in program funding for 2010 was 3% after last year's 14.5% (for 2008 74.8 billion rubles were allocated, for 2009 - 85.7 billion rubles). Centralized purchase within the DLO and VZN programs demonstrated its effectiveness and showed budget savings. In 2009 76.7 billion rubles were spent - around 12% was saved. In 2010, drug supply volume to the regions amounted to 80.8 billion rubles. Thus, in 2010, 7.6 billion rubles was saved that makes 9.4% of the budget.

In 2009, 5.5 million citizens were provided with free medicines in Russia. In 2010, 4.2 million Russians submitted applications for beneficiary drug provision. The negative dynamics of beneficiaries is the tendency of DLO program since its initiation. And this program funding is not reduced, but is increasing.

Diagram 18

Dynamics of money spent on DLO program



Source: DSM Group. **ISO 9001:2008**

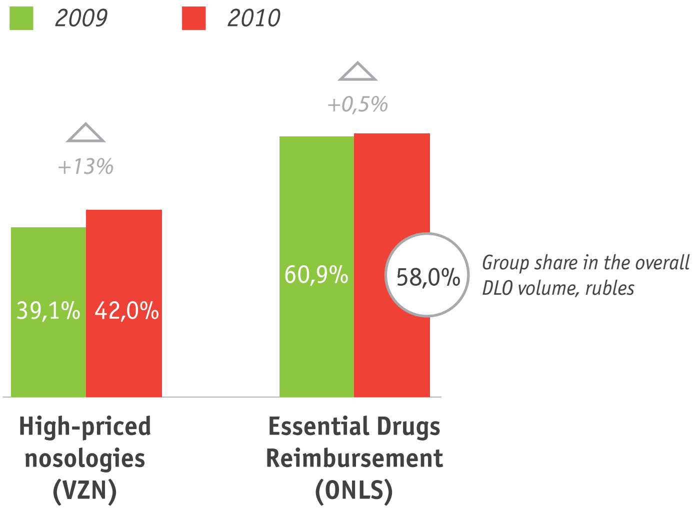
During the period of the DLO program, the level of availability of quality drugs to beneficiaries increased significantly. This is reflected in the growth of sold unit average cost. In 2010, the average cost of prescriptions for beneficiary drugs increased by 11% and amounted to 840 rubles. Maximum price of weighted average unit cost was registered in Penza region (3,630 rubles), in the republic of Karachay-Cherkessia (2,300 rubles).

Against the background of reduction in the number of beneficiaries participating in the program, and the growth of budget funds, real consumption of medicines dispensed through pharmacies is decreasing. In 2010, 96 million units were sold, which is 5% less than in 2009.

If we talk separately about the two parts of the program, the share of sub-program on expensive drugs procurement is increasing - in 2010 its funding was 45.9 billion rubles, which is by 10% higher compared to 2009. At that, by holding auctions and tenders only 34 billion rubles were spent, which is still 13% more than in 2009. On the other hand, according to the results of 2010, there are about 100 thousand registered patients requiring expensive treatment against 52.8 thousand for 2009. Thus, one beneficiary should receive 340 thousand rubles under the VZN program, which is 40% lower than in 2009.

Diagram 19

Proportion in the DLO program by different lists



Source: DSM Group. **ISO 9001:2008**

At the same time it was planned to reduce financing of ONLS sub-program: in 2010, 42.5 billion rubles were allocated compared to 44.13 billion rubles in 2009. This reduction was due to decreased number of beneficiaries. At that, the standard amount for one beneficiary was increased. In fact, in 2010, the drug sales value was 46.9 billion rubles, which is by 0.5% higher than in 2009. Despite this, the share of ONLS sub-program in the total beneficiary drug provision has dropped from 61% to 58%.

1. Proportion of imported and domestic drugs within DLO Program

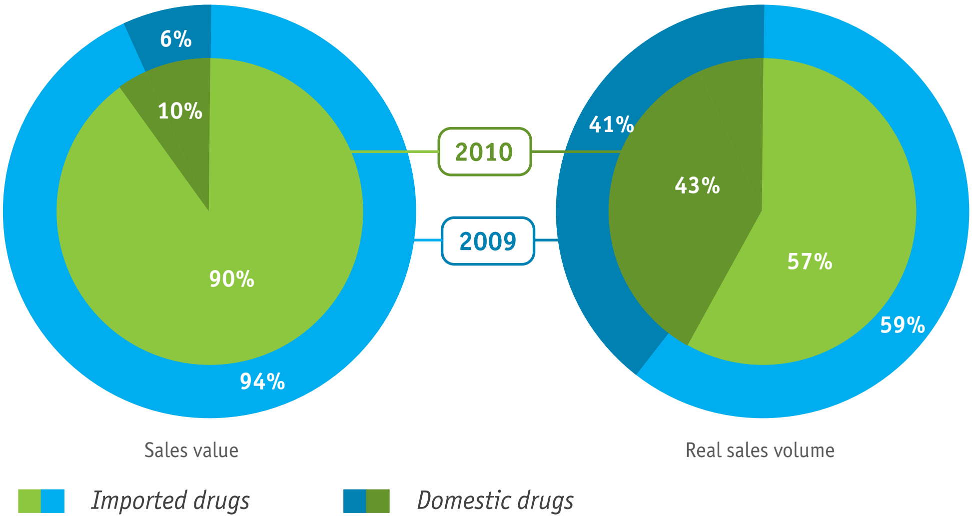
The DLO program includes mainly “imported drugs” while the domestic production takes only modest place in the volume of the reimbursed drugs. For the first time since the program implementation the share of domestic products grew, and grew significantly - by almost 2-fold. In money terms the growth exceeded 62%, while consumption of imported drugs increased by only 1.5%.

An example of “victory” of domestic drugs in VZN sub-program may be EPTAKOG ALPHA INN. If in 2009 only NOVOSEVEN (NOVO NORDISK) was available among the drugs with this INN, then in 2010 the major share was covered by COAGIL (LEKKO FF).
A similar situation is also with INTERFERON BETA-1B INN. RONBETAL (BIOCAD) appeared in the list of beneficiary drugs instead of BETAFERONE (BAYER HEALTHCARE).

In spite of that, in 2010, the proportion remained in favor of the imported drugs: the share of imported drugs is 90%, and the share of domestic drugs is 10%.

Diagram 20

Proportion of imported and domestic drug sales



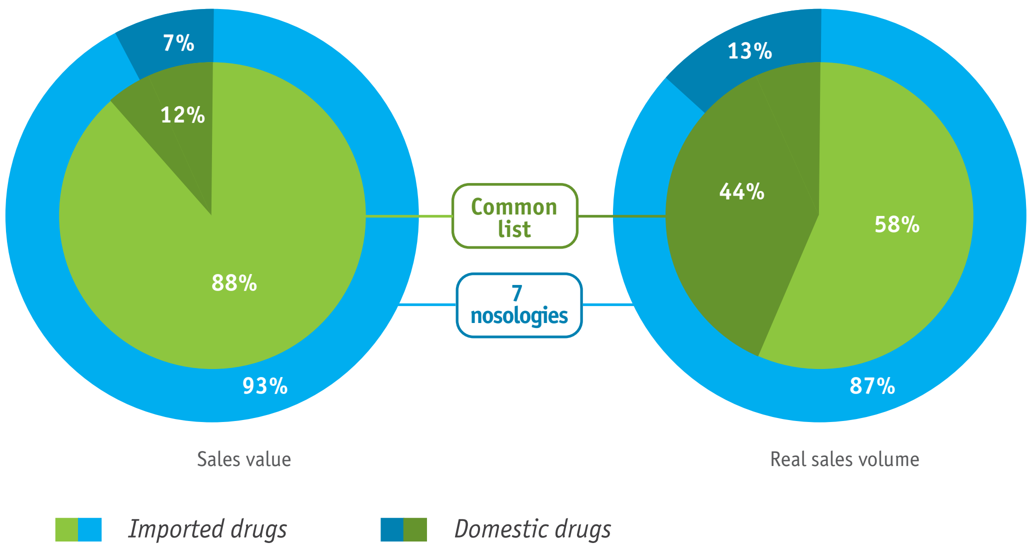
Source: DSM Group. **ISO 9001:2008**
Note: **the sales volume shown is in final consumer prices with VAT included.**

The share of the domestic drugs in real terms also increased, but less significantly, only by 2%. In 2009, it amounted to 41%, and in 2010 it amounted to 43%.

Reduction of real volume under the DLO program in 2010 was caused by reduced consumption of imported drugs: decrease of unit volume – 8.6%, domestic drugs volume remained at the level of 2009.

Diagram 21

Proportion of imported and domestic drug sales by different lists



Source: DSM Group. **ISO 9001:2008**

In the share of DLO program corresponding to 7 high-priced nosologies, domestic drugs covered less than 1% of sales value in 2009. In 2010 this figure was around 7%. In real terms, significant growth is observed from 5.2% to 13%. In 2010, VZN sub-program was replenished by 3 new domestic drugs against one drug RASTAN (PHARMSTANDART).

While in the remainder of the list the share of Russian drugs amounts to about 12% in terms of money (+2% to 2009), and about 41% in terms of units (+3% to 2009).

2. Proportion of Rx and OTC drugs within the DLO program

It is not a great surprise that the Rx drugs prevail in DLO program both by sales value and by sales volume, as all these drugs are prescribed by physicians strictly according to the disease specifics.

In 2010, the share of Rx drugs in the DLO program sales value in Russia amounted to 98%. Rx drug share by sales volume increased and amounted to 87.5% (1.5% higher than in 2009).

3. Drug sales structure by ATC groups within the DLO program

Proportion of the 1st level ATC groups in pharmacy sales within the DLO program in 2010 in Russia is shown in Table 6.

Table 6

Drug sales structure by ATC groups on the DLO market

First level ATC groups	Sales value, millions of rubles	Group share in sales value, %	Real sales volume, millions of units	Group share in real sales volume, %
L: Antineoplastic and immunomodulating agents	32 602	40,3%	3,7	3,8%
A: Alimentary tract and metabolism	13 263	16,4%	19,8	20,5%
B: Agents affecting blood and blood forming organs	12 551	15,5%	4,5	4,6%
C: Cardiovascular system drugs	5 226	6,5%	35,7	37,1%
N: Nervous system drugs	4 699	5,8%	15,7	16,3%
R: Respiratory system drugs	4 666	5,8%	6,1	6,4%
H: Systemic hormonal preparations (excluding sex hormones)	2 230	2,8%	1,6	1,6%
M: Musculoskeletal system drugs	1 778	2,2%	4,4	4,6%
J: Antibacterials for systemic use	1 581	2,0%	1,1	1,2%
V: Various	668	0,8%	0,2	0,2%
[~] Without allocation	620	0,8%	0,1	0,1%
G: Genitourinary system drugs and sex hormones	526	0,7%	0,7	0,7%
S: Agents affecting sensory organs	369	0,5%	2,3	2,4%
D: Dermatologicals	41	0,1%	0,3	0,3%
P: Antiparasitic products, insecticides and repellents	5,3	0,01%	0,01	0,01%

Source: DSM Group. **ISO 9001:2008**
Note: **the sales volume shown is in final consumer prices with VAT included.**

Group [L] "Antineoplastic and immunomodulating agents" remain the most expense item of the DLO program - in 2010 more than 40% of all allocated state funds were spent for their purchase. Antineoplastic drugs ([L01] and [L02]) of the last generations are effective in treatment of serious diseases, significantly lengthen life, and in some cases may cure the patients. However, they all have a very high price and are unaffordable to most Russians. For example, the cost of one drug unit of VELCADE for multiple myeloma is approximately 62 thousand rubles, one treatment cycle requires 4 bottles, respectively, the cycle value is more than 240 thousand rubles, and to achieve a positive result 3-5 and sometimes even 8 cycles are needed. In these cases the DLO program is the last hope.

In 2010, the purchase of antineoplastic drugs (the cost of one standard unit amounted to 1000 rubles and more) took about 21.5 billion rubles (in 2009 - 19 billion rubles). More than 60% of this amount was spent on the purchase of three brands - VELCADE (4.7 billion rubles), GLEEVEC (4.6 billion rubles) and MABTHERA (4 billion rubles). However, despite this significant state costs and increased number of purchased packages (1.6-fold more compared to 2009) it is unfortunately not possible to provide all essential drugs to all the patients in need.

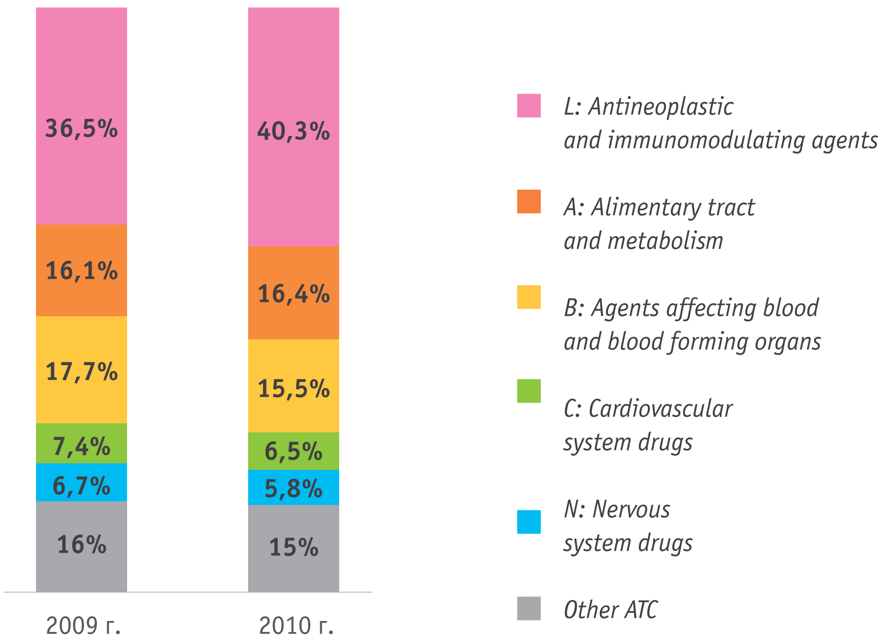
Group [A] "Alimentary tract and metabolism" occupies the second place in ATC-group ranking. Almost 75% of all sales in this group accounts for diabetes mellitus drugs ([A11]), they increase in sales amounted to 6%. This increase was primarily due to insulin drugs, the increase in sales of oral hypoglycemic agents is minimal - less than 1%. In group [A11] the prevalence of imported drugs is observed, the share of domestic drugs covers only 5.1% of sales value, and 12.8% of sales volume. Currently only 4 Russian insulin drugs (ROSINSULIN, BIOSULIN, INSURAN, RINSULIN) are used in the DLO program, which account for only 3.8% of sales value and 6.9% of real sales volume. However, it should be noted that despite this quite low percentage, the share of the Russian insulin increased almost 2-fold compared to 2009. With regard to domestic oral hypoglycemic drugs, the situation is a little better than with insulin - 13 drugs with a total share of 12.3% in rubles and 18.9% - in units. The most procured Russian insulin was ROSINSULIN; the most procured Russian oral hypoglycemic drug was GLIFORMIN. Totally in group [A11] long-acting insulin LANTUS is a leader by sales value (13.8%), and DIABETON MB – by sales volume.

The ranking is tailed by group [B] "Agents affecting blood and blood forming organs" (15.5%). Unlike the previous two groups, this group sales volume decreased by 7.4%. However, by the number of sold units no fall is observed, but there is a light growth (2.6%). Thus, in this group a trend of switching to cheaper drugs is observed clearly. This is particularly traced in ATC-subgroups: [B02] "Hemostatics" (fall in rubles by 3.4%, growth in units by 14.1%), and [B03] "Hematopoiesis stimulators" (-18.1% in rubles and +10.1% in units). Reduction in price was due to the switch to the Russian drugs instead of the similar imported drugs - Danish hemostatic NOVOSEVEN was replaced by COAGIL-VII, hematopoiesis stimulator EPREX was partially replaced by ERALFON, whose share in comparison with 2009 increased almost 3-fold.

In 2010, the DLO structure by ATC groups did not changed significantly. About 85% of consumption is shared between 5 ATC groups only (see Diagram 22).

Diagram 22

Sales proportion by ATC groups in the Drug Reimbursement Program



Source: DSM Group. **ISO 9001:2008**

Group [L] "Antineoplastic and immunomodulating agents" still covers 40% of DLO sales, there is a significant increase in its share in value terms (+3.8%). This is the most expensive group of drugs in DLO - weighted average price per unit is more than 5,000 rubles. The largest growth showed group [J] "Antibacterials for systemic use" (+29.2%), which occurred largely due to a significant increase in purchases of antiviral drug VALCYTE by 36% (115 million rubles). As compared to 2010, group [L] has a growth by 16.4%, but in absolute terms the increase of drugs procurement in this group is the maximal (+4.6 billion rubles).

It is interesting to look at how much money is spent for treatment of specific disease under this Program. We classified the drug list by diseases. As a result, the following ranking was obtained (Table 7).

Table 7

Cost ranking in DLO by diseases, 2010

Disease	Volume, mln ruble	Share
ONCOLOGY	21 671	26,8%
DISORDERS OF BLOOD AND HEMOPOIETIC ORGANS	12 551	15,5%
IMMUNE SYSTEM DISORDERS	11 489	14,2%
DIABETES MELLITUS	9 942	12,3%
CARDIOVASCULAR DISORDERS	5 226	6,5%
RESPIRATORY DISORDERS	4 666	5,8%
NERVOUS SYSTEM DISORDERS	4 298	5,3%
ALIMENTARY DISORDERS	3 109	3,8%
HORMONAL DISORDERS	2 230	2,8%
MUSCULOSKELETAL DISORDERS	1 778	2,2%
OTHER	1 349	1,7%
INFECTIOUS AGENTS DISEASES	1 245	1,5%
MALE AND FEMALE REPRODUCTIVE DISORDERS	526	0,7%
OCULAR DISORDERS	369	0,5%
AIDS/HIV	336	0,4%
SKIN DISEASES	41	0,1%

Source: DSM Group. **ISO 9001:2008**
Note: the sales volume shown is in final consumer prices with VAT included.

Every year a number of cancer patients is increasing steadily - more than 400 thousand new cases are identified annually. Increase in incidence rates for the last 10 years has exceeded 14%. National Oncology Program launched in 2009 is designed to identify oncology at the early stages, thereby reducing the mortality from this disease. In 2010, the program included 10 regions and 3 federal institutions. According to forecasts, due to the implementation of this program the mortality of oncology diseases should decrease by 4%, early detection of diseases should increase dramatically, and the quality of life of patients should improve significantly. Therefore, the leading places in the ranking by diseases are occupied by oncological pathologies.

Most drugs for the treatment of hematologic diseases are used in the “7 nosologies” program (hemophilia drugs), so they are high-priced. Therefore, despite the decreased cost of drugs procurement compared to 2009 - hematological diseases treatment costs take the second place.

4. Manufacturers in the DLO program

Table 8 shows TOP-20 manufacturing companies leading by the consumption volume in the DLO program in 2010.

Table 8

TOP-20 drug manufacturers by the consumption volume in the DLO program in 2010

2010 ranking	Change	Manufacturer	Sales value, millions of rubles 2010	Sales value increase	Share
1	-	F.HOFFMANN-LA ROCHE LTD	9 942	14,6%	12,3%
2	1	NOVARTIS	8 422	15,4%	10,4%
3	-1	JANSSEN PHARMACEUTICA N.V.	6 905	-13,2%	8,5%
4	-	NOVO NORDISK	4 181	-28,2%	5,2%
5	1	TEVA PHARMACEUTICAL INDUSTRIES	4 162	16,2%	5,1%
6	-1	OCTAPHARMA AG	3 990	-24,8%	4,9%
7	1	SANOFI-AVENTIS	3 720	25,7%	4,6%
8	1	ASTRAZENECA UK LTD	2 934	13,5%	3,6%
9	-2	BAYER HEALTHCARE	2 532	-17,8%	3,1%
10	-	SCHERING-PLOUGH	2 257	6,1%	2,8%
11	-	ELI LILLY	1 837	-5,9%	2,3%
12	-	GLAXOSMITHKLINE	1 665	4,8%	2,1%
13	5	ARES-SERONO GROUP	1 522	63,0%	1,9%
14	-	SERVIER	1 324	3,1%	1,6%
15	4	BAXTER HEALTHCARE CORP	1 301	46,0%	1,6%
16	-1	BOEHRINGER INGELHEIM	1 198	3,2%	1,5%
17	-1	GENZYME CORPORATION	1 192	12,1%	1,5%
18	-5	BIOTEST PHARMA GMBH	1 187	-13,1%	1,5%
19	86	LEKKO FF ZAO	1 099	3966,7%	1,4%
20	-	ASTELLAS PHARMA INC	899	8,8%	1,1%

Source: DSM Group. **ISO 9001:2008**
Note: the sales volume shown is in final consumer prices with VAT included.

In 2010, over 330 manufacturers took part in the DLO program, which is slightly higher than that in 2009. Among the manufacturers, who took part in the DLO program for the first time, CSL BEHRING GMBH is a leader by sales value (482 million rubles), supplying two drugs under the DLO program: BERIATE and MONONINE used to stop and prevent bleeding, including in hemophilia. The second position with significant gap by sales volume (74 million rubles) is occupied by CATALENT U.K. PAKAGING LIMITED – company producing enzyme drug NAGLAZYM used for mucopolysaccharidosis. Among the new domestic participants the highest position (23rd line) holds HIPPOCRAT OOO thanks to MEDICAL ANTISEPTIC SOLUTION and ETHANOL.

As in the past year, F.HOFFMANN-LA ROCHE LTD has taken a leading position in the manufacturers ranking. In 2010, the total amount of state funds spent for this company drugs procurement amounted to nearly 10 billion rubles that is by 15% more than in 2009. The most expensive drug was MABTHERA (its share in company sales is around 40%), which purchases have increased by 34%.

In 2010, NOVARTIS and JANSSEN PHARMACEUTICA N.V. reversed their positions in the ranking. NOVARTIS sales increased by 15.4% mainly due to increased procurement of GLIVEC (+30.5%), which share in 2010 accounted to almost 55% of sales of all company products eligible for DLO program. In case of JANSSEN PHARMACEUTICA N.V. the situation is just the opposite - sales fell by 13.2%. This drop is associated primarily with decreased sales of RISPOLEPT (-20.1%), EPREX (-59.1%) and TOPAMAX (-28.1%), total share of which is more than 26% in the company DLO-portfolio.

Table 9

TOP-20 drug manufacturers by the consumption volume in the DLO program by competitions

7 nosologies			ONLS Sub-program		
2010 ranking	Manufacturer	Share in group, rubles	2010 ranking	Manufacturer	Share in group, rubles
1	NOVARTIS	17,3%	1	F.HOFFMANN-LA ROCHE LTD	10,6%
2	F.HOFFMANN-LA ROCHE LTD	14,7%	2	SANOFI-AVENTIS	7,9%
3	JANSSEN PHARMACEUTICA N.V.	13,8%	3	NOVO NORDISK	7,5%
4	OCTAPHARMA AG	10,6%	4	ASTRAZENECA UK LTD	6,3%
5	TEVA PHARMACEUTICAL	8,5%	5	NOVARTIS	5,5%
6	BAYER HEALTHCARE	6,9%	6	SCHERING-PLOUGH	4,8%
7	ARES-SERONO GROUP	4,5%	7	JANSSEN PHARMACEUTICA N.V.	4,7%
8	BAXTER HEALTHCARE CORP	3,8%	8	ELI LILLY	3,9%
9	BIOTEST PHARMA GMBH	3,3%	9	GLAXOSMITHKLINE	3,5%
10	LEKKO FF ZAO	3,2%	10	SERVIER	2,8%
11	GENZYME CORPORATION	3,1%	11	TEVA PHARMACEUTICAL	2,7%
12	BIOCAD ZAO	2,1%	12	BOEHRINGER INGELHEIM	2,6%
13	NOVO NORDISK	1,9%	13	KRKA	1,9%
14	ASTELLAS PHARMA INC	1,6%	14	BERLIN-CHEMIE /A.MENARINI/	1,8%
15	CSL BEHRING GMBH	1,4%	15	VEROPHARM OAO	1,7%
16	BIOGEN INC	1,3%	16	FRESENIUS	1,4%
17	PHARMSTANDART OOO	1,2%	17	SOLVAY PHARMACEUTICALS	1,4%
18	PANACEA BIOTEC LTD	0,3%	18	VETTER PHARMA-FERTIGUNG	1,1%
19	KEDRION S.P.A	0,2%	19	PHARM-SINTEZ ZAO	1,0%
20	TALECRIS BIOTHERAPEUTICS	0,1%	20	NYCOMED	1,0%
Total		99.8%	Total		74%

Source: DSM Group. **ISO 9001:2008**

Table 9 shows the ranking of manufacturers participating in the “7 nosologies” program. 5 companies from TOP-20 were included in this ranking under the common list: NOVARTIS, F.HOFFMANN-LA ROCHE LTD, JANSSEN PHARMACEUTICA N.V., TEVA PHARMACEUTICAL and NOVO NORDISK. A leader in “7 nosologies” program became NOVARTIS, which in the ONLS ranking took only 5th place.

It should be noted that the domestic manufacturer LEKKO FF ZAO was included to the TOP-10 the VZN ranking due to the supply of COAGIL. Additionally 2 more manufacturers BIOCAD and PHARMSTANDART are presented in the VZN ranking, whereas it was only one manufacturer last year.

5. Drugs in the DLO program

Table 10 shows TOP-20 brands leading by sales volume in the DLO program in 2010.

Table 10

TOP-20 brands by sales value in the DLO program in 2010

2010 ranking	Change	Brand name	Sales value, millions of rubles 2010	Sales value increase	Share
1	-	VELCADE	4 691	4,2%	5,8%
2	1	GLIVEC	4 627	30,5%	5,7%
3	1	MABTHERA	4 001	34,1%	4,9%
4	-2	OCTANATE	3 264	-26,3%	4,0%
5	-	COPAXONE-TEVA	2 890	31,3%	3,6%
6	2	LANTUS	2 088	22,6%	2,6%
7	14	REBIF	1 519	81,0%	1,9%
8	4	SERETIDE	1 337	3,5%	1,7%
9	4	HERCEPTIN	1 327	8,5%	1,6%
10	-	HUMULIN	1 213	-7,0%	1,5%
11	3	REMICADE	1 199	11,6%	1,5%
12	-1	HAEMOCTIN	1 105	-15,2%	1,4%
13	new	COAGIL	1 076	-	1,3%
14	2	CEREZYME	1 061	10,1%	1,3%
15	-8	EPREX	1 044	-48,3%	1,3%
16	-1	RECORMON	925	-10,0%	1,1%
17	2	PROTAPHANE	873	-1,1%	1,1%
18	4	AVASTIN	841	3,3%	1,0%
19	-2	ZOMETA	834	-12,9%	1,0%
20	-	TEMODAL	796	-5,7%	1,0%

Source: DSM Group. **ISO 9001:2008**
Note: the sales volume shown is in final consumer prices with VAT included.

In 2010, TOP-20 brands covered 45.4% of sales value, which is by 3% more than in 2009. Like last year, ranking was headed by VELCADE, but its gap from GLIVEC, which occupied the second place, is not significant - only 0.1% by the share. It is most likely that in the nearest future (in the 1st half of 2011), if the trend remains (GLIVEC sales growth rate is significantly higher than that of VELCADE), we can observe the change of the DLO segment leader. MABTHERA tails the TOP-3 leaders; it also showed good growth compared to 2009 (+34.1%). We have to note the appearance of a new player in the ranking - the "7 nosologies" program participant COAGIL, hemophilia drug, which has taken the 13th place.

The weighted average price in the TOP-20 is very high - more than 6300 rubles per unit. The most high-priced drug is VELCADE (about 62 thousand rubles) and the most low-priced drug is PROTAPHANE (725 rubles).

Most TOP-20 drugs, in particular the three leaders, belong to group [L] "Antineoplastic and immunomodulating agents" (9 drugs). The second place by this value is occupied by ATC [B] "Agents affecting blood and blood forming organs" – 5 drugs, the third place is taken by insulin drugs from group [A] "Alimentary tract and metabolism" – 4 drugs.

6. Segments by price in DLO Program

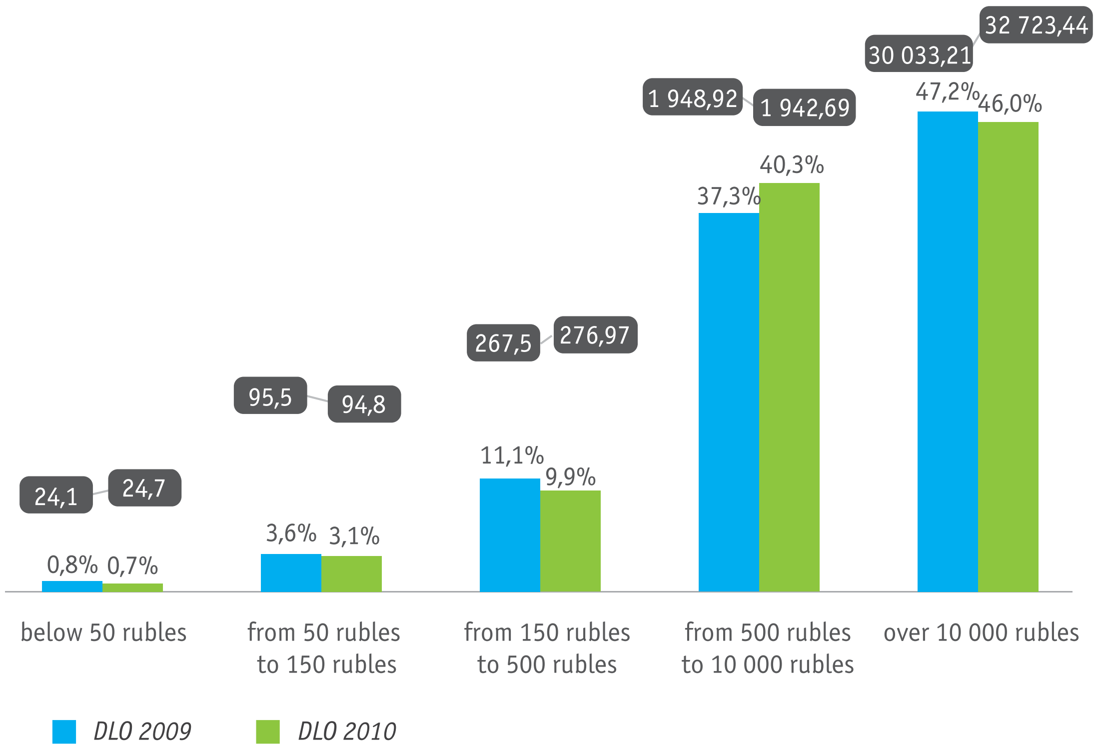
In 2010, the average cost per unit in the DLO Program continued to grow (as already described above) and amounted to about 840 rubles. It should be noted that such impressive result is observed neither in the commercial segment of the market, nor in hospital procurement.

Since the moment when the DLO program was introduced, the consumption structure by price in the DLO market segment was being transformed with the share of more expensive drugs increasing. At the beginning of this Program in 2005 the segments with price over 500 rubles amounted to less than 40% of the DLO market capacity. In 2010, this segment covers 86% of the sales value. And the growth of this price category was due to the increased share of drugs priced from 500 rubles to 10,000 rubles.

The drug consumption structure within the DLO program is presented in Diagram 23.

Diagram 23

DLO structure by price segments



Source: DSM Group. **ISO 9001:2008**

As is shown on this Diagram, the average cost per unit in the segments has virtually not changed, except for "high-priced" drug segment (price above 10,000 rubles). This was due to 2-fold growth of the segment form 10,000 rubles presented in the ONLS Program (common list).
It should be noted that the drugs included to the VZN are presented mainly in the segments from 500 rubles per unit – they cover 99.7% of sales value. 74% of sales are covered by drugs priced over 10,000 rubles.

ONLS sub-program drugs are mostly concentrated in the segment priced from 500 rubles to 10,000 rubles – more than 50%. The segment over 10,000 rubles also covers a large sales value of 26%. This segment includes such drugs as ELAPRASE (weighted average unit cost more than 300 thousand rubles), TASIGNA (250 thousand rubles), and REVLIMID (about 600 thousand rubles).

As it is known, the state sets an ambitious goal: in 2011 to begin a radical restructuring of healthcare system in Russia. Over 2010 the Ministry of Health prepared the legislative ground for the launch of major reforms in healthcare and health insurance systems in the next year. The results of healthcare system reform should be upgraded infrastructure, switching to modern medical care standards, healthcare system computerization. Significant changes are expected already by 2013. During this time, on the one hand, the legislation should gradually change; on the other hand the medical care system should finally be formed. Despite the fact that the reforming will last for at least two or three years, by 2011 Russian citizens should receive a new policy of compulsory medical insurance and the right to choose an insurance company in the CMI system.

Future healthcare reform is supported by money. In two years the ministry and regional authorities expect to spend 460 billion rubles to implement this reform or, more precisely, on its computerization, repair and re-equipment of medical institutions, increasing healthcare professionals salaries, medical services standardization due to the gradual introduction of standards and procedures of providing medical care. This money will be obtained by increasing the insurance contributions to the system of compulsory medical insurance (CMI) from 3.1 up to 5.1%, that is, in fact it will be "taken" from the pockets of employers. The funds are intended for the total transformation of the entire healthcare system in the country: 300 billion - to repair the hospitals, the rest - to purchase new medical equipment, procure drugs, increase salary fund for healthcare professionals and implement the modern plastic medical policies.

Taking into account the increasing importance of the hospital segment, the results of 2010 shown by RTU sector are not surprising.

The growth of hospital procurement segment is maximal and amounts to 9%. In rubles, the HCI segment capacity amounted to about 61.5 billion rubles, which are 488 million units in real terms. Positive is the fact that procurement has also increased by units.

Taking into account that healthcare costs in 2011 will increase, we can assume that the trend of this year remains - this segment will continue to show steady growth by at least 10%.

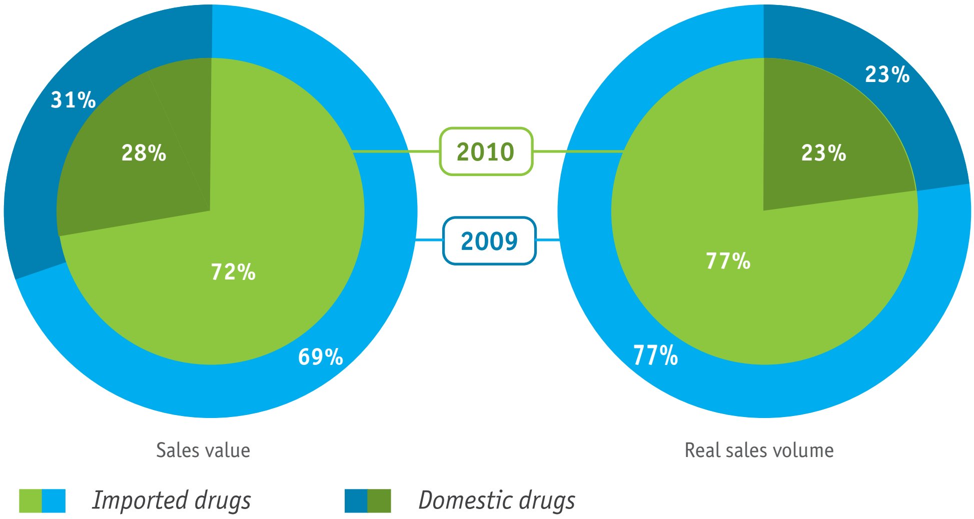
Let us have a look at the basic indicators of the hospital procurement segment.

The cost of one drug unit purchased by HCI was 126 rubles. In 2010, the increase of average cost of unit in the HCI segment was about 4%.

The domestically produced drugs cover 28% of sales value in the HCI segment (their share has decreased in 2010, in 2009 it amounted to about 31%). In real terms there is a prevalence of the domestic drugs, their share amounts to 77% (see Diagram 19). In most cases, this is related to the large purchase of cheap domestic drugs. The price of one imported unit is 9-fold higher than the price of one domestic unit purchased by HCI: in 2010 the cost of one imported drug unit amounted to 395 rubles on average, and that of domestic unit was 46 rubles. The gap between the cost of imported and domestic units is increasing. Moreover, one domestic unit cost for hospitals is by 6% cheaper than in 2009, and imported one is by 7% more expensive.

The imported drugs procurement in 2010 grew in rubles by 14%, and that of domestic drugs on the contrary decreased by 2%. In real terms the dynamics is practically the same – growth by 6% for imported and by 4.7% for domestic drugs, respectively.

Proportion of imported and domestic drug sales

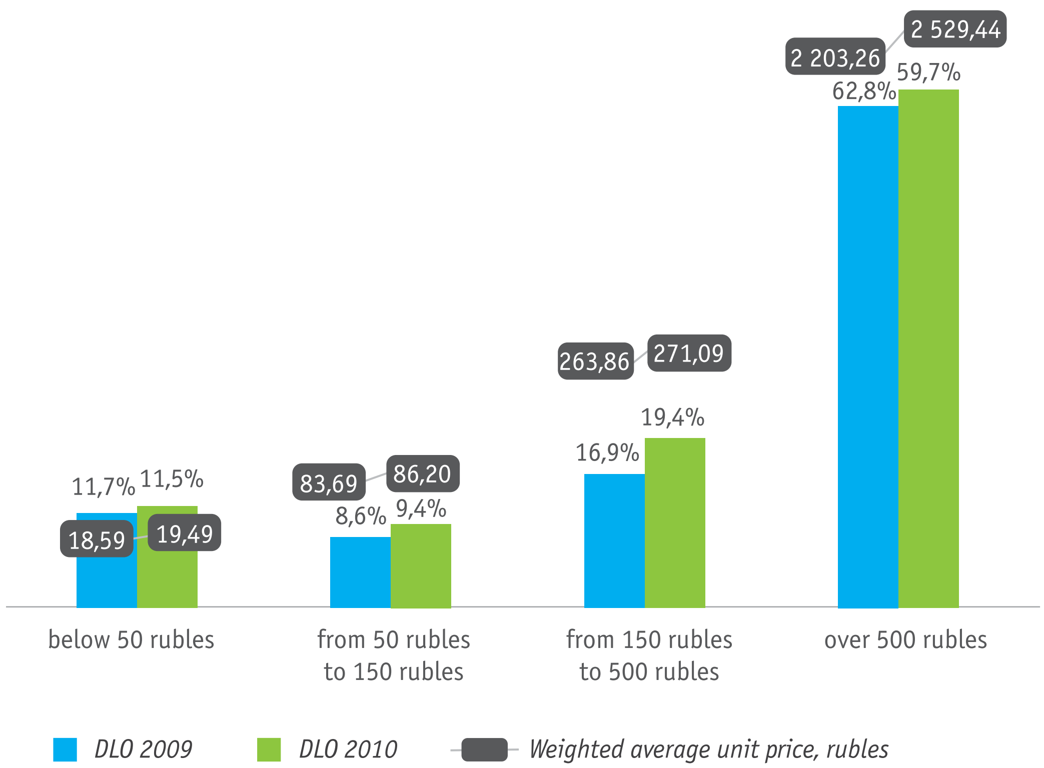


Source: DSM Group. **ISO 9001:2008**

The structure of HCI segments by price categories is shown in diagram 25.

Diagram 25

HCI structure by price categories in 2010



Source: DSM Group. **ISO 9001:2008**
Note: the sales volume shown is in final consumer prices with VAT included.

In drugs allocation by price categories in 2010, all segments showed growth in value terms. As the most capacious segment remains the segment with price above 500 rubles, at the same time its share slightly decreased by 3% and in 2010 it covers about 60% of the sales value of the HCI sector and it amounts to 3% in real terms (see Diagram 25). The share of drugs priced below 50 rubles also decreased, but less noticeable. Drugs priced from 50 to 500 rubles increased their share in total volume of hospital procurement market.

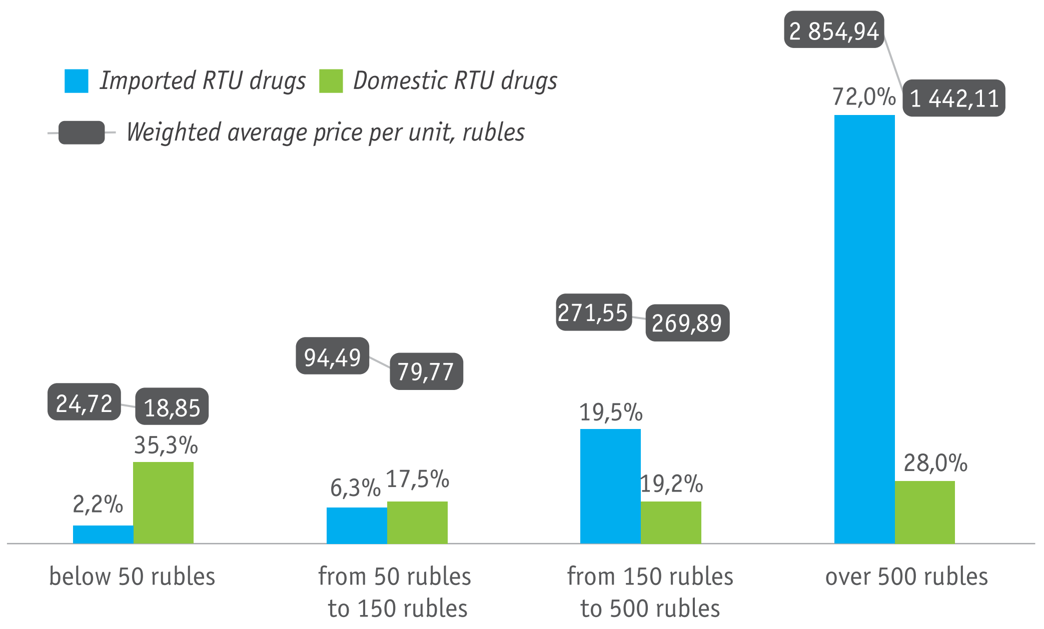
It should be noted that the average unit price in the segment above 500 rubles amounts to more than 2,500 rubles, this price is almost 20-fold higher than the average price in hospital purchases.

Such overbalance is caused by imported drugs, which price is significantly higher than that of the domestic drugs. That is why the biggest share of the imported drugs is presented in the price category "above 500 rubles" (72%). 35% of domestic drugs are in the price category "below 50 rubles".

there is almost no difference between the average price of imported and domestic drugs in the segments priced up to 500 rubles, in the most capacious segment priced over 500 rubles the imported drugs cost by 1,000 rubles more than domestic.

Diagram 26

The structure of HCI segment by price categories and origin in 2010



Source: DSM Group. **ISO 9001:2008**

Proportion of the 1st level ATC groups in hospital purchases in Russia in 2010 is shown in Table 11.

Table 11

Structure of the hospital purchases by ATC groups

First level ATC groups	Sales value, millions of rubles	Group share in sales value, %	Real sales volume, millions of units	Group share in real sales volume, %
J: Antibacterials for systemic use	16 501,7	26,8%	138,0	28,3%
B: Agents affecting blood and blood forming organs	12 481,6	20,3%	142,1	29,1%
L: Antineoplastic and immunomodulating agents	11 302,4	18,4%	7,7	1,6%
N: Nervous system drugs	5 724,2	9,3%	53,0	10,9%
A: Alimentary tract and metabolism	4 230,0	6,9%	41,4	8,5%
V: Various	3 249,0	5,3%	7,3	1,5%
C: Cardiovascular system drugs	2 241,6	3,6%	24,1	4,9%
M: Musculoskeletal system drugs	1 655,5	2,7%	10,0	2,1%
R: Respiratory system drugs	1 441,3	2,3%	18,2	3,7%
H: Systemic hormonal preparations (excluding sex hormones)	867,2	1,4%	6,6	1,3%
D: Dermatologicals	690,1	1,1%	30,0	6,2%
G: Genitourinary system drugs and sex hormones	515,4	0,8%	2,0	0,4%
[~] Without allocation	322,5	0,5%	2,9	0,6%
S: Agents affecting sensory organs	266,2	0,4%	4,4	0,9%
P: Antiparasitic products, insecticides and repellents	32,2	0,1%	0,4	0,1%

Source: DSM Group. **ISO 9001:2008**
Note: the sales volume shown is in final consumer prices with VAT included.

Drug ranking by ATC groups considerably differs from the commercial market. Group [J] "Antibacterials for systemic use" remains unchanged leader in hospital purchases, which covers 26.8% of sales value according to the results of 2010. This subgroup sales volume increased by 28% compared to 2009.

Sales growth in group [J] is caused, first of all, by increased hospital procurement of antibacterial drugs for systemic use ([J01]), which covered 67% of sales value of the whole group. Most money was spent by the healthcare institutions on the purchase of antibiotics containing ceftriaxone (CEFSON, ROCEPHIN, CEFTRIABOL, etc.) – over 15%. Ceftriaxone (III generation cephalosporin antibiotic) is used for treatment of various infectious diseases: pneumonia, urinary tract infections, ENT, skin and soft tissues infections, etc.

In 2010, a number of vaccines purchased by hospitals increased significantly [J07] - almost 2-fold in rubles and 5-fold in units, and mainly due to the anti-influenza vaccines. But the costs of hospital institutions for the purchase of antiviral drugs for systemic use [J05] decreased by almost 19%. Cost reduction affected mainly expensive drugs used to treat HIV infection: ABACAVIR-based drugs (-71.4%), ATAZANAVIR (-49.3%), LAMIVUDINE (-34%). These drugs procurement moved to the DLO program.

In the recent years the state more often undertakes the costs for treatment of patients suffering from this disease. In particular, in 2010, 1.6-fold more money was spent for the purchase of antiviral drugs against HIV under the DLO program than in 2009. In addition to medical assistance, HIV patients receive psychological aid - specialized centers, telephone hotlines are being opened, etc.

According to the results of 2010, group [B] "Agents affecting blood and blood forming organs", took the 2nd place in the hospital ATC-groups ranking. Compared to 2009 the number of purchased drug units of this group increased by 10%, and HCI spending for procurement – by 19%. The largest increase has a subgroup [B06] "Various hematologic drugs" (+52%), due to the sales of ACTOVEGIN. Most money was spent for subgroup [B05] drugs "Plasma substituting solutions" (45% of the entire group [B]). The mostly "procured" drug was SODIUM CHLORIDE (17%) on the basis of which a significant number of drugs are administered.

The last in the TOP-3 leaders is group [L] "Antineoplastic and immunomodulating agents". For the purchase of this group drugs the hospital institutions spent 23% more money than the previous year. Most money was spent for antineoplastic drugs [L01] "Antineoplastic drugs" – 69% of all costs. Leaders in purchases in real terms are cyclophosphamide-based drugs (14.7%) - antineoplastic drugs for the treatment of a wide spectrum of oncology diseases (ovarian cancer, breast cancer, cervix and uterus cancer, bladder cancer, prostate cancer, neuroblastoma, retinoblastoma etc.). High sales of this drug are largely caused by rather low price (about 39 rubles per one standard unit). The most expensive in segment [L] was REVLIMID (a drug for the treatment of multiple myeloma), the purchase price of which in 2010 amounted to more than 450 thousand rubles.

Table 12 shows TOP-20 manufacturers in the HCI segment in 2010. The ranking is headed by SANOFI-AVENTIS (7.1%), F.HOFFMANN-LA ROCHE LTD is its nearest competitor (4.2%), the leading positions did not change in 2010. ASTRAZENECA takes the 3rd position (3.9%) by moving one line up.

TOP-20 manufacturers in the HCI segment

2010 ranking	Change	Manufacturer	Sales value, millions of rubles 2010	Sales value increase	Share
1	-	SANOFI-AVENTIS	4 344,0	-6,7%	7,1%
2	-	F.HOFFMANN-LA ROCHE LTD	2 595,8	0,1%	4,2%
3	1	ASTRAZENECA UK LTD	2 428,4	49,1%	3,9%
4	17	BAXTER HEALTHCARE CORP	2 306,1	226,2%	3,7%
5	4	NYCOMED	1 910,2	52,1%	3,1%
6	- 1	VEROPHARM OAO	1 877,3	22,9%	3,1%
7	4	BAYER	1 599,0	39,1%	2,6%
8	8	PFIZER	1 473,1	53,0%	2,4%
9	6	TEVA PHARMACEUTICAL INDUSTRIES LTD	1 437,5	45,8%	2,3%
10	- 4	GEDEON RICHTER	1 264,3	-7,1%	2,1%
11	19	MICROGEN NPO FGUP	1 145,3	105,5%	1,9%
12	1	LEK D.D.	1 127,3	11,9%	1,8%
13	28	MUSTAFA NEVZAT ILAC SANAYII	1 072,9	256,7%	1,7%
14	- 7	GLAXOSMITHKLINE	1 072,7	-16,1%	1,7%
15	5	MERCK SHARP & DOHME	1 067,1	47,2%	1,7%
16	- 8	SCHERING-PLOUGH	1 065,7	-15,4%	1,7%
17	9	BIOTEK MFPDK ZAO	1 004,0	57,8%	1,6%
18	- 1	JANSSEN PHARMACEUTICA N.V.	994,4	32,2%	1,6%
19	- 7	ABOLMED OOO	964,2	-8,8%	1,6%
20	- 2	BOEHRINGER INGELHEIM	911,8	24,0%	1,5%

Source: DSM Group. **ISO 9001:2008**
Note: the sales volume shown is in final consumer prices with VAT included.

The following companies show significant growth in hospital purchases:

- ASTRAZENECA UK LTD - due to almost double increase in procurement of antibiotic drug MERONEM, which in 2010 covered more than 50% of company hospital sales.
- BAXTER HEALTHCARE CORP - due to substantial increase in hospital procurement of GEMOFIL, a drug used for hemophilia treatment. Compared to 2009, hospitals spending for the purchase of this drug increased almost 20-fold, and the share of this drug in the company hospital sales increased from 8% to 49%.
- NYCOMED – due to increased procurement of radiopaque drug OMNIPAQUE (+48%), local hemostatic TACHOCOMB (+88%), CUROSURF (pulmonary surfactant drug), as well as the company “flagship” ACTOVEGIN (+93%).
- MICROGEN NPO - domestic company, which showed one of the maximum growth levels compared to 2009 - more than 100%. In 2010, the demand for vaccines (e.g. anti-influenza vaccines) produced by this company increased significantly.
- MUSTAFA NEVZAT ILAC SANAYII - Turkish company, which showed maximum increase in sales among the companies included in the TOP-20 - 257%. Antibacterial cephalosporin drug CEFSON provided 59% of company hospital sales, and the total hospital purchase volume of this drug increased almost 6-fold.

NOVO NORDISK rolled down in the ranking from the 3rd to the 42nd place. Such a significant drop is associated with reduction in procurement by hospital institutions of all the insulin preparations of this company. As a result, the general hospital sales of the company fell by 80%. It should be noted that the reduction in procurement affected not only insulin drugs manufactured by NOVO NORDISK, but that of the other companies as well. This is due to the fact that the insulin procurement (as also the anti- AIDS drugs) moved to the DLO program.

The first place in the hospital ranking of brands, same as in previous periods, is occupied by SODIUM CHLORIDE, which is the basis for the majority of intravenous infusions. Antibiotic drug Meronem moved to the second place from the third one. GEMOFIL soared to the third place from the 208th position.

Table 13

TOP-20 trade names in the HCI segment

2010 ranking	Change	Brand name	Sales value, millions of rubles 2010	Sales value, millions of rubles 2010	Share
1	-	SODIUM CHLORIDE	1 527,6	34,6%	2,58%
2	3	MERONEM	1 297,8	96,6%	2,19%
3	208	GEMOFIL	1 125,5	1903,7%	1,90%
4	94	VACCINE	1 071,2	787,5%	1,81%
5	2	CLEXANE	744,8	25,3%	1,26%
6	3	TAXOTERE	657,0	13,3%	1,11%
7	132	CEFSON	631,0	608,9%	1,06%
8	14	TAVANIC	623,2	54,0%	1,05%
9	6	TIENAM	610,4	21,9%	1,03%
10	1	ULTRAVIST	579,3	7,2%	0,98%
11	3	GLUCOSE	579,1	15,2%	0,98%
12	1 117	ONCOTRONE	542,6	19105,0%	0,92%
13	- 9	PEGINTRON	483,7	-31,3%	0,82%
14	103	ZYVOX	471,9	334,3%	0,80%
15	12	OMNIPAQUE	467,2	47,8%	0,79%
16	9	PAS FATOL N	460,2	26,8%	0,78%
17	24	EPREX	429,4	79,7%	0,72%
18	18	MABTHERA	416,5	52,3%	0,70%
19	-13	GEMZAR	416,0	-30,7%	0,70%
20	- 3	ELOXATINE	411,5	-8,5%	0,69%

Source: DSM Group. **ISO 9001:2008**
Note: the sales volume shown is in final consumer prices with VAT included.

The share of TOP-20 brands in hospital procurement is 23%. And the ranking includes both expensive imported drugs, and cheap domestic generics (SODIUM CHLORIDE, GLUCOSE).

5 new drugs appeared in the ranking compared to 2009. The greatest growth was shown by antitumor drug ONCOTRONE, which is located at the 12th line, it significantly strengthened its position in the ranking - in 2009 it was not included even in the first thousand.

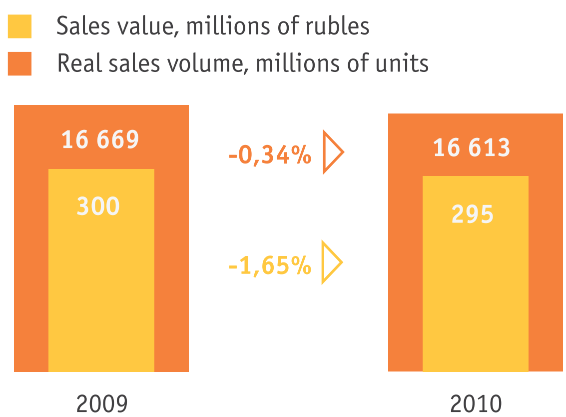
Despite the fact that nutritional supplements (NS) are known to Russian consumers for almost 20 years, the attitude to this product is still ambiguous, unlike in most Western countries, where NS are quite popular among the population (more than 50% of Europeans and 80% of Americans regularly take NS). In the early 90's, during the formation of market relations, a huge number of low-quality, non-certified NS appeared on the Russian market as at that time the market was generally not monitored in respect of these products. Therefore, the negative attitude towards the NS is not surprising. With the development of Russian NS market, various legislative acts were developed regulating this segment and protecting potential consumers from poor-quality products.

On February 15, 2010, the Russian Federation Government Decree No. 982 "On approval of the united list of products subject to mandatory certification, and the united list of products subjects to conformance by issuing a declaration of conformity" dated December 01, 2009 came into force. According to it, adoption of the declaration of conformity (conformity declaration) is a form of mandatory conformity of products or other subjects to the requirements of technical regulations, standards, codes of conduct or contract terms. In addition, NS turnover is regulated by the previously adopted documents: MI (methodical instructions), SANPIN and the law "On Advertising".

Year 2010 for the NS became the most "unfortunate". NS sales volume did not return to pre-crisis level (in real terms), same as with drugs, but even decreased (-1.65% by units). In monetary terms, the volume of the Russian NS pharmaceutical market has not changed compared to 2009 (decline by -0.3% is insignificant). Over 295 million units of nutritional supplements were sold through Russian pharmacies totaling to 16.6 billion rubles. The cost of one standard NS unit was 56.2 rubles that is slightly higher than in 2009. Imported NS, alike the drug market, are more expensive than domestic nutritional supplements: the unit price of one imported NS amounted to 126.7 rubles, domestic – 46.1 rubles. It should be noted that in 2010 a slight rise in Russian products prices and decrease in imported products prices is observed.

Diagram 27

Nutritional supplements sales volume in Russia in 2009-2010



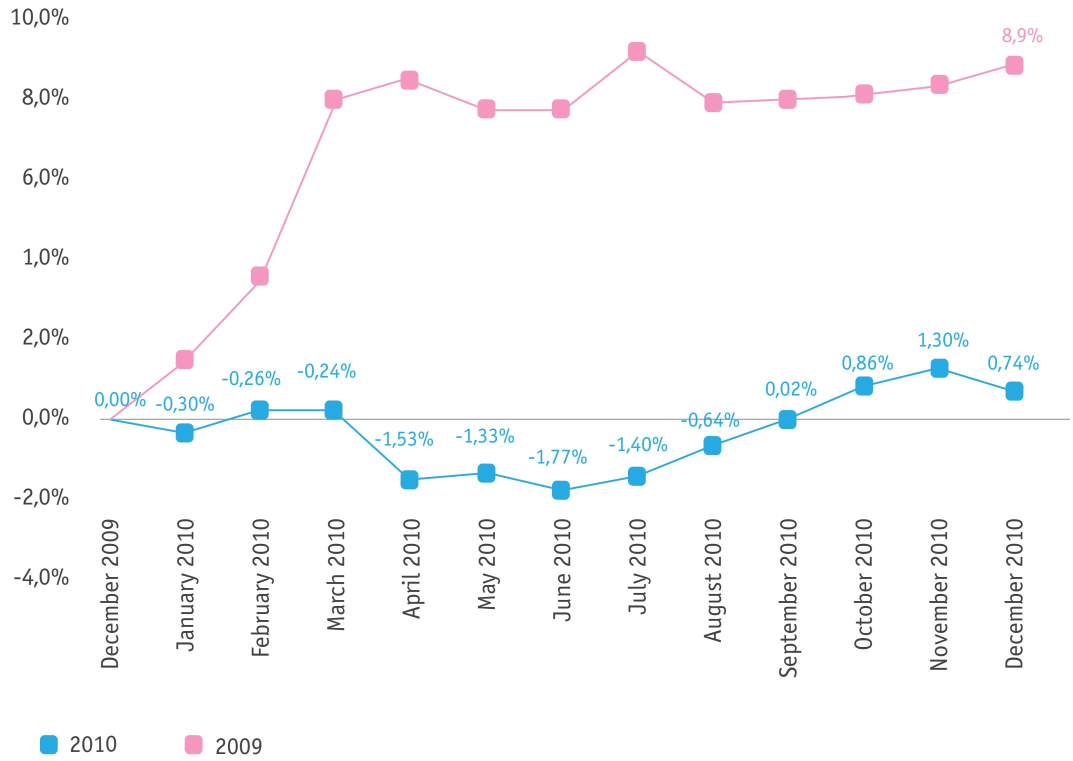
Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

The distribution of NS sales was rather traditional - sales peak in March, "sagging" market in the summer, then autumn-winter period growth. The highest growth in March was shown by slimming nutritional supplements - by 27.2% compared to March 2005, while the total share increased by nearly 1%. This is not surprising, with the advent of spring pharmacies tend to buy this group of nutritional supplements, as the demand among potential consumers increases with the traditional approach of "beach-holiday" season.

NS price dynamics was analyzed using the Laspeyres price index.

Diagram 28

Change in NS prices on Russian commercial pharmacy market in 2010

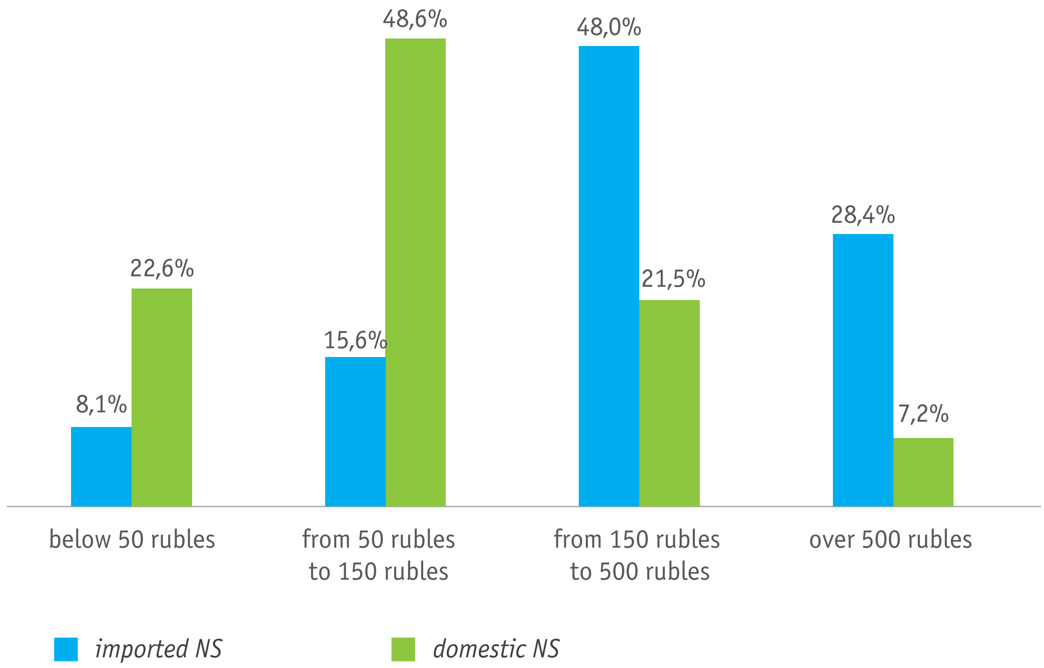


Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group.
Quality Management System compiles with **ISO 9001:2008**

According to Laspeyres index, in 2010 NS prices increased by only 0.74% in ruble terms compared to 2009, while in 2009 the price growth was about 9%. A favorable economic situation in the country affected the NS as well - the inflation in this segment is minimal. Even though, in summer a negative dynamics was observed in price growth compared to December 2009. In September (the season), prices began to rise and reached a peak in November 2010 – 1.3%. But anyway this is a very small growth compared to the previous year.

About 39% of sales value was covered by nutritional supplements with weighted average price for one unit ranging between 50 and 150 rubles. The high-priced supplements (unit price more than 500 rubles) are the least popular, their share amounts to 13.5%. And in real terms the situation is different. The most capacious segment is the segment priced up to 50 rubles, 69%, and this situation is identical to the drugs market.

Proportion of imported NS sales versus price range in Russia in 2010



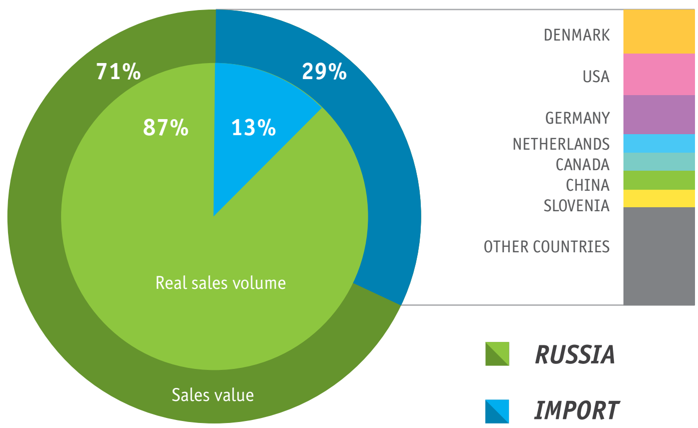
Source: DSM Group. **ISO 9001:2008**

It should be noted that if we divide the market by origin, the popularity of the segments is opposite: more than 76% of imported NS sales value is sold in the segment priced over 150 rubles, domestic NS - 70% of the volume is accounted for segments priced less than 150 rubles.

Unlike the drug market, where the products of foreign manufacturers are predominant, on the NS market the situation is quite opposite – domestic manufacturers cover 71.4% of sales value and 87.1% of the real sales volume. NS manufactured in Germany (14.9%), USA (14.6%) and Denmark (13.7%) are leaders among the foreign manufacturers. German manufacturers list is led by QUEISSER PHARMA GMBH & CO.KG (DOPPELHERZ Series), among the most popular American products are the NS of NATURE'S WAY PRODUCTS INC. (PRIMADOFILUS series). Among Danish manufacturers FERROSAN AG (MULTI-TABS) is a leader.

Diagram 30

Proportion of imported NS sales by countries



Source: DSM Group. **ISO 9001:2008**

In respect to the distribution by countries, it is not surprising that the NS ranking is led by domestic manufacturer - in recent years this place has been traditionally owned by EVALAR, whose products cover more than 23% of all NS pharmaceutical sales. Despite a slight increase (+1.8%) to 2009, the gap between this company and the nearest competitor is still very significant - nearly 18%. According to the results of 2010, the most sold product of this company was laxative agent FITOLAX (9.9% of total EVALAR sales). This NS sales increased significantly (+295.3%) compared to 2009. The last year's leader OVESOL moved down to the second place by losing 20% in sales and about 2% by share. The last in the TOP-3 leaders is MOTHERWORT-FORTE, whose sales and share also declined slightly. The most significant decline is shown by TURBOSLIM DRAINAGE - sales of this drug decreased 2-fold. The sales of other products of TURBOSLIM series also fell, with the exception of TURBOSLIM COFFEE and TURBOSLIM DRAINAGE FOR WOMEN 45 +. As a result, the entire line has lost more than 20% in money terms and nearly 6% by share (within the EVALAR portfolio). Nutritional supplements VALERIANA FORTE, FITOGIPNOZ, AD MINUS, PARITET, on the contrary show a significant increase compared to 2009 (+453%, +323%, + 352% and + 222%, respectively). However, in many respects, such an increase in sales is associated with a "low base effect" - the drugs were marketed only in 2009 (AD MINUS in April, VALERIANA FORTE and PARITET - in June, FITOGIPNOZ - in July) and at the beginning their sales were insignificant.

The second place in the manufacturers ranking is occupied by AKVION, which improved its position in the rankings by moving up from the third place. Due to successful sales of vitamin-mineral complexes line ALPHAVIT (+11.4% compared to 2009), and FOCUS (+65.1%), KUDESAN Q10 FORTE (+102.3%), overall sales of the company rose by 20.3%.

In 2010, RIA-PANDA rose from the fifth to the third line in the ranking by increasing its sales more than 1.5-fold (+54.4%). This is one of the highest growth rates. In the past year, RIA-PANDA actively promoted through TV two products designed for the correction of specific disorders in men - ALI CAPS and SEALEX FORTE. The success of these two nutritional supplements (ALI CAPS sales volume has increased by 184%, SEALEX FORTE – by 62%), which covered more than 76% of all sales of RIA-PANDA dietary supplements and provided such a good overall growth.

The sales of QUEISSER PHARMA (DOPPELHERZ series) showed an active growth. Sales rose by more than 55% and there was a movement up by 7 positions in the ranking.

TOP-20 NS manufacturers in Russia in 2010

2010 ranking	Change	Manufacturer	Sales value, millions of rubles 2010	Sales value increase	Share
1	-	EVALAR ZAO	3 890,1	1,8%	23,4%
2	1	AKVION ZAO	954,6	20,3%	5,7%
3	2	RIA PANDA	873,4	54,4%	5,3%
4	-2	DIOD OAO	857,3	-15,8%	5,2%
5	-1	FERROSAN AG	588,2	1,8%	3,5%
6	1	PHARMA-MED INC	391,5	-11,8%	2,4%
7	-1	NATUR PRODUKT	362,2	-20,7%	2,2%
8	-	EKOMIR	326,4	2,7%	2,0%
9	1	PHARM-PRO TD OOO	273,1	-0,3%	1,6%
10	-1	MIRAXPHARMA ZAO	267,6	-6,2%	1,6%
11	1	LABORATORIES INNEOV	232,1	-8,0%	1,4%
12	7	QUEISSER PHARMA GMBH & CO.KG	227,0	55,7%	1,4%
13	1	KRKA	226,4	6,8%	1,4%
14	2	PHARMSTANDART OOO	219,0	25,6%	1,3%
15	-2	ALTAY-PHARM OOO	207,0	-6,9%	1,2%
16	1	KOROLEVPHARM OOO	174,6	3,8%	1,1%
17	4	DR. MANN PHARMA	157,3	17,8%	0,9%
18	2	BIOKOR OOO	150,7	9,2%	0,9%
19	-1	HORST OOO	138,4	-7,0%	0,8%
20	4	MERK SELBSTMEDIKATION	131,8	10,2%	0,8%

Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

KAPILAR remains the undisputed leader in the NS ranking by trade name for many years. In 2010 the situation has changed. This dietary supplement fell to the third place in the trade name ranking due to a substantial reduction in sales (-16%) Supplements are the goods with short life cycles, their market position and demands largely depend on the promotion and advertising. Apparently, the existing advertising support is not enough to hold KAPILAR in the first place. KAPILAR is the flagship drug of DIOD. In 2010, KAPILAR sales accounted for more than 40% of total company sales. Therefore, such a significant decrease in sales volume of the leading brand has affected the general position of DIOD on pharmacy NS market. If in the beginning of KAPILAR sales, DIOD was confidently ranked second in the manufacturers ranking, in 2010 it even did not enter the TOP-3 by occupying the fourth position. Drop in sales has occurred not only in KAPILAR, but also in other brands of this company: VIARDO (-19.4%), CALORIES BLOCKER PHASE 2 (-44%), and others. Only a newly marketed nutritional supplement STELLA and sales growth of ARTHRO-ACTIVE (+17.5%) and OKULIST (+13.7%) did not allow the company to fall even lower in the ranking.
In 2010, SEALEX FORTE became a leader in trade names ranking by rising from the third place through promotion. FITOLAX, which took the second place, has significantly improved its position in the ranking compared to 2009 - last year it was only on line 35. Trade names ranking consists by almost 50% of EVALAR products (total share of the TOP-20 – 12.9%).

Since many nutritional supplements manufacturers prefer to produce not the single products, but the whole series, it is more interesting to look at the position of brands by sales value. The leader in the Top-20 brands is slimming/purification nutritional supplement TURBOSLIM, despite the fact that only one product of this series entered trade names ranking - TURBOSLIM CLEANSING TEA, which took the 8th place. The second place is occupied by ALPHAVIT vitamin complexes, which firmly keep this position not for the first year thanks to a wide range of products (13 trading positions) and affordable price (around 150 rubles). The third position is taken by SEALEX FORTE, which leads the ranking by trade names.

Table 15

TOP-20 NS brands by sales in Russia in 2010

2010 ranking	Change	Brand name	Company	Sales value, millions of rubles 2010	Sales value increase	Share
1	-	TURBOSLIM	EVALAR ZAO	753,9	-21,6%	4,5%
2	-	ALPHAVIT	AKVION ZAO	587,2	11,4%	3,5%
3	4	SEALEX FORTE	RIA PANDA	502,4	61,2%	3,0%
4	-1	HEMATOGEN	VARIOUS MANUFACTURERS	435,6	2,7%	2,6%
5	40	FITOLAX	EVALAR ZAO	386,3	295,3%	2,3%
6	-2	CAPILAR	DIOD OAO	349,7	-14,3%	2,1%
7	-1	BILBERRY-FORTE	EVALAR ZAO	310,4	-12,2%	1,9%
8	-3	OVESOL	EVALAR ZAO	301,9	-20,8%	1,8%
9	-1	LEONURUS (MOTHERWORT)	VARIOUS MANUFACTURERS	292,1	-1,0%	1,8%
10	-	INDINOL	MIRAXPHARMA ZAO	246,6	-7,4%	1,5%
11	-	INNEOV	LABORATORIES INNEOV	232,1	-8,0%	1,4%
12	2	LUTEIN	VARIOUS MANUFACTURERS	219,1	-0,9%	1,3%
13	8	BIFIFORM	FERROSAN AG	204,7	37,8%	1,2%
14	41	CRATAEGUS	VARIOUS MANUFACTURERS	193,7	152,9%	1,2%
15	31	CI-CLIM	EVALAR ZAO	186,7	95,4%	1,1%
16	13	DOPPELHERZ ACTIVE	QUEISSER PHARMA	184,7	43,1%	1,1%
17	-2	GEPATRIN	EVALAR ZAO	177,7	-12,0%	1,1%
18	-6	ASCORBIC ACID	VARIOUS MANUFACTURERS	175,7	-28,9%	1,1%
19	-	MULTI-TABS	FERROSAN AG	174,6	0,1%	1,1%
20	3	KUDESAN	AKVION ZAO	172,5	20,4%	1,0%

Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

Manufacturers market the nutritional supplements as the means for the prevention and/or treatment of various diseases. It is not very convenient to use an existing official classifier to assess the NS market as many nutritional supplements used for the prevention/treatment of the same diseases are scattered in different sections of the classifier (e.g., products improving vision). Therefore, DSM specialists developed their own NS classifier, which reflects the realities of today's NS market more accurately. The NS Classifier consists of 17 sections, most of which include the 2nd, and some of which have the 3rd subsection.

Proportion of NS sales by sections in Russia in 2010

Position No.	NS Registry section	Sales value, millions of rubles	Increase to 2009	Leader of each section	Group share, %
1	V NS AFFECTING WHOLE BODY	3 693,5	0,4%	ALPHAVIT	22,2%
2	A NS AFFECTING DIGESTIVE SYSTEM	2 774,1	5,3%	FITOLAX	16,6%
3	G NS AFFECTING REPRODUCTIVE SYSTEM	2 125,8	18,9%	SEALEX FORTE	12,8%
4	N NS AFFECTING FUNCTION OF CENTRAL NERVOUS SYSTEM	1 429,5	-0,4%	MOTHERWORT-FORTE	8,6%
5	W SLIMMING AND CLEANSING NS	1 904,6	-29,9%	CALORIES BLOCKER PHASE 2	11,4%
6	C NS SUPPORTING CARDIOVASCULAR SYSTEM FUNCTION	1 179,6	0,7%	CAPILAR	7,1%
7	S NS AFFECTING SENSORY ORGANS	1 070,0	-1,7%	BILBERRY-FORTE	6,4%
8	B NS AFFECTING HEMATOPOIETIC SYSTEM	491,6	2,0%	HEMATOGEN FOR CHILDREN RUSSIAN	2,9%
9	D NS FOR SKIN AND HAIR PROBLEMS	534,5	-7,3%	INNEOV THICKNESS OF HAIR	3,2%
10	R RESPIRATORY SYSTEM NS	421,9	-11,9%	SALVIA	2,5%
11	M SKELETAL SYSTEM NS	337,3	-1,5%	HONDA	2,0%
12	T NS USED IN POISONING AND INTOXICATION	321,6	-1,5%	TURBOSLIM CLEANSING TEA	1,9%
13	U NS AFFECTING URINARY SYSTEM	158,2	-1,9%	PROLYT	0,9%
14	I NS SUPPORTING IMMUNE SYSTEM FUNCTION	131,1	10,0%	TERAFLU IMMUNO ORANGE	0,8%
15	H NS AFFECTING FUNCTION OF ENDOCRINE GLANDS	77,0	48,5%	ENDOCRINOL	0,5%
16	O NS USED FOR TREATMENT AND PREVENTION OF ONCOLOGY DISEASES (OTHER THAN REPRODUCTIVE SYSTEM TUMORS)	17,2	40,4%	PROMISAN	0,1%
17	J NS USED IN VIRUS, BACTERIAL, FUNGOUS DISEASES	1,8	-4,3%	TANAXOL	0,0%

Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

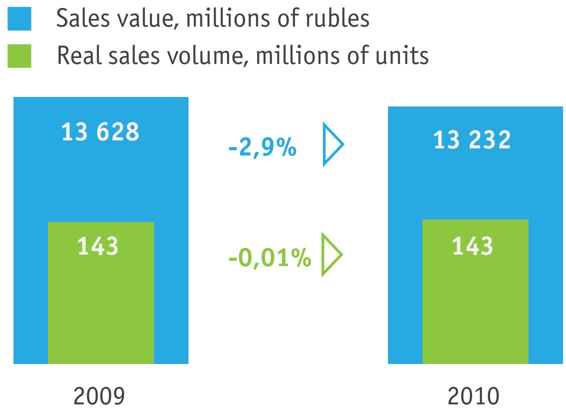
NS ranking by the first level of DSM classifier is headed by group V "NS AFFECTING WHOLE BODY" (22.2%), which consists of vitamin and bracing products. Slightly less popular are NS AFFECTING DIGESTIVE SYSTEM (16.6%). The TOP-3 is tailed by group G NS AFFECTING REPRODUCTIVE SYSTEM (12.8%). The largest growth (+48.5%) is shown by NS AFFECTING FUNCTION OF ENDOCRINE GLANDS (Group H) thanks to a substantial increase in sales of ENDOCRINOL (+76.6%) manufactured by EVALAR. According to the results of 2010, the share of ENDOCRINOL accounted for almost 45% of total sales across the group H. And the share within the group increased by approximately 7% compared to 2009. The biggest drop in sales has group W SLIMMING AND CLEANSING NS (-29.9%). Such drop is mainly caused by decreased sales volume of TURBOSLIM series (-25.6%), amounting to about 40% of the turnover of all slimming dietary supplements. Other popular slimming dietary supplements CALORIES BLOCKER PHASE 2 and FLYING SWALLOW also lost in the volumes (-44% and -9.2%).

Unlike drugs and nutritional supplements, beauty products in pharmacy are not subject to any external influence from the state, in particular there is no prices regulation, strict control over the products range, etc. Therefore, despite a slight decline in demand for beauty products, this segment is still very attractive to pharmacies. Although in 2010 there was one state initiative, after which the beauty products segment in pharmacies could be affected, and even disappear at all. In one of the first versions of the law "On medicinal products circulation", which came into force on September 01, 2010, the segment of non-medical perfume and cosmetic goods was ignored. And therefore, starting from enactment, the pharmacies would be unable to sell goods related to this category and in the autumn they could disappear from the shelves of pharmacies. Only prompt intervention of pharmacy association helped to avoid this situation: amendments to the federal law were adopted in July. Or it would have been: "We wanted the best, but it turned out as always".

However, despite the fact that all ended well, pharmaceutical beauty products in 2010 experienced some difficulties in sales. In particular, 2010 can be called a crisis year for this segment. We did not observe any extra growths as it was before 2009. The volume of beauty products sold through pharmacies fell both in rubles (-2.9%) and in units (-0.01%). As a result, the volume of pharmaceutical beauty products totaled to 13.2 billion rubles or 143 million units.

Diagram 31

Beauty products sales volume in Russia in 2009-2010



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**
Note: the sales volume is shown in pharmacy purchase prices with VAT included.

There is no official classification of beauty products, however, depending on the purpose, effect and price, all beauty products can be divided into three groups: selective beauty products (Premium and Deluxe class), MASS MARKET beauty products and medicinal (active) beauty products. We have to note that the division into these groups is conventional and subjective.

Medicinal (active) beauty products are used for treatment and prevention of certain diseases, contain various biologically active substances. Medicinal beauty products include such brands as Sophie (creams and balms), Boro Plus creams, etc.

Mass market beauty products are beauty products available to most consumers, designed for skin, hair and nail care. They are available both in pharmacies and other retail outlets (supermarkets, specialized stores, etc.)

Such beauty products usually do not include any selective preparations eliminating specific problems, such as acne. Mass market beauty products include the goods of such manufacturers as, for example, Garnier Laboratories, Nivea.

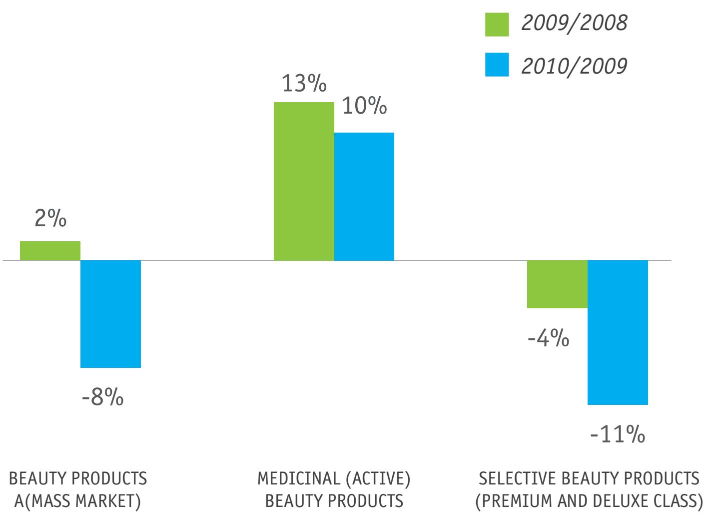
Selective beauty products (Premium and Deluxe class) - elite, prestigious beauty products, in which more often appear cosmetic lines designed to certain skin or hair condition. In general, these products are expensive (approximately from 800 rubles per unit). For example, a manufacturer of selective beauty products is Vichy Laboratories.

Among the three types of goods only medicinal beauty products demonstrate the growth both in money terms (+10.3%) and by units (+5.6%); sales of mass-market and selective beauty products are reducing. The largest decrease of sales value and sales volume is observed in the segment of Premium and Deluxe class beauty products (-11.2% in rubles and -15.4% in units), and this decrease is continued for the second consecutive year.

Reduced sales value at almost the same sales volume resulted in lower average prices (from 95.13 to 92.38 rubles.) However, this drop in prices affected only one beauty segment: mass market (by 5.3% - from 60.6 rubles to 57.3 rubles). On the contrary, in two other segments the price has increased: an average cost of selective beauty products is 5.0% more expensive (575 rubles), that of medicinal beauty products – 4.5% (77 rubles).

Diagram 32

Beauty products sales growth by type

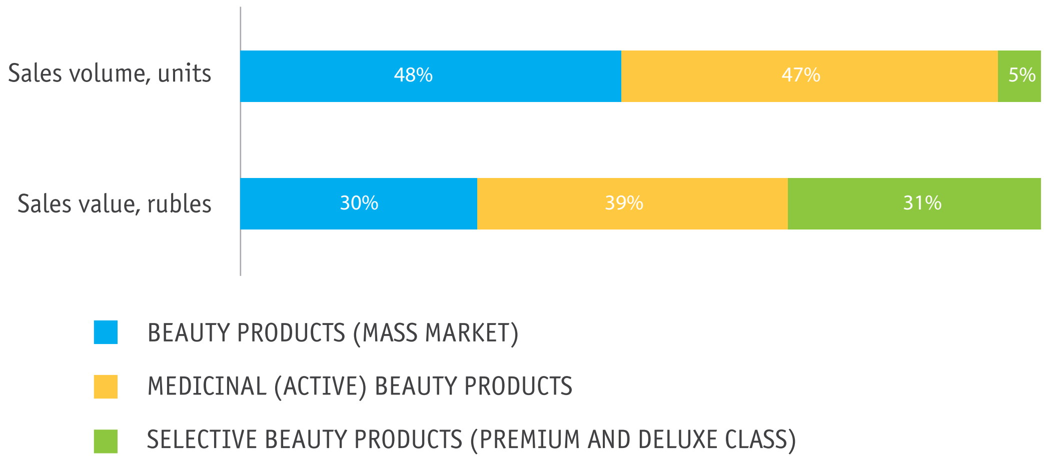


Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2008**

Sales proportion by beauty products groups is presented in Diagram 33.

Diagram 33

Proportion of pharmacy beauty products sales by type, 2010

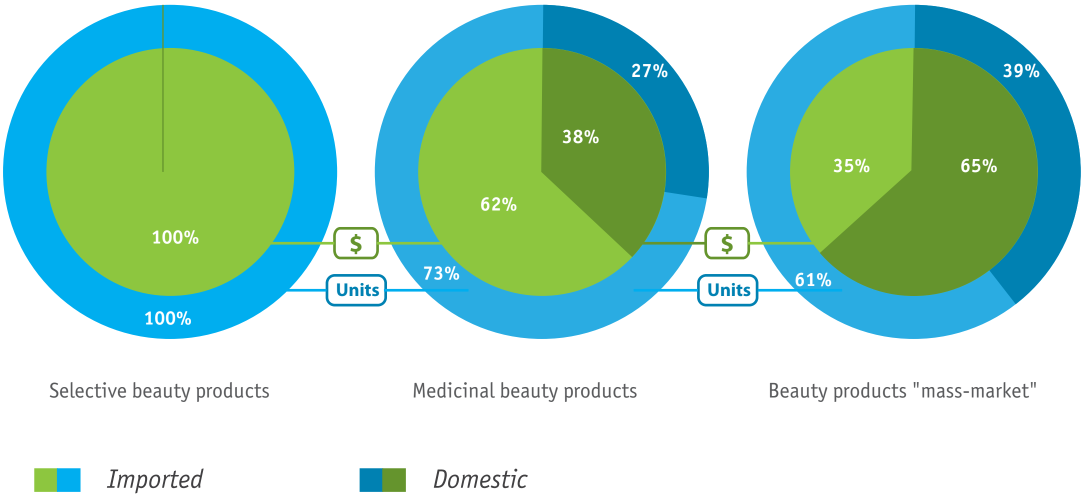


Source: DSM Group. **ISO 9001:2008**

Proportion of three types of beauty products has experienced a little change - the mass market and medicinal beauty products are virtually equal in terms of units sold (48% and 47% respectively); the remaining 5% are covered by selective beauty products. Medicinal beauty products lead in terms of money - 39%. Shares of mass-market and selective beauty products are nearly equal - about 30%.

Diagram 34

Proportion of pharmacy beauty products sales by type, 2010



Source: DSM Group. **ISO 9001:2008**

Production of Russian manufacturers enjoys higher demand than that of foreign companies, occupying nearly 52% of real sales volume. However, imported beauty products are observed to prevail in sales value (70% of sales).

Within the segments the domestic and foreign beauty products ratio is different.
Selective beauty products consist by 100% of imported products - development, production and promotion of this type of beauty products requires considerable funds. Domestic companies still can not afford such costs.

In the mass-market segment, as in the past year, the domestic beauty products are ahead of the imported by the number of units sold (53%). Foreign brands retained the advantage by sales value (65%). Although it should be noted that compared to 2009 the share of the Russian mass-market increased significantly (from 28% to 35%).

In the segment of medicinal beauty products domestic brands are leaders both by sales value (62%) and sales volume (73%).

Beauty products sold through pharmacies have a wide price range - from cheap, costing about 10-15 rubles (soap, wet wipes, cheap domestic hand cream, etc.) to very expensive, which may be priced over 10,000 rubles per unit.

The main target audience of beauty products is, of course, the beautiful half of humanity, so the percentage of beauty products for other groups is not high. In particular, according to the results of 2010, the share of male beauty products amounted to only 2.1% in rubles and 1.1% - in units. Besides, in comparison with the last year, the share of the male beauty products has decreased. By the number of sold units NIVEA MEN remains a leader (36% of total sales of all male beauty products in the pharmacies), which includes products for and after shaving, men's shampoos and deodorants. VICHY HOMME series is a leader by sales value (31.8%).

As in previous years, VICHY brand tops the selective beauty products ranking. Although compared to 2009 this brand sales declined by 9%, its share has increased. Increased share is associated with a rapid drop in sales of major competitors. For example, RoC brand sales decreased by almost half, LIERAC by 19%, LUSERO - by 59%. VICHY is undisputed leader in the segment, it is unlikely that this brand will ever leave the first line. As we forecasted last year, in 2010, LIERAC and LA ROCHE-POSAY brands exchanged their positions- LIERAC sales decreased by much higher percentage, therefore LA ROCHE-POSAY shifted it from the second place. Nearly 2% gap makes the second position of LA

ROCHE-POSAY rather confident. AVENE and BIODERMA brands have almost equal shares – 5.0% and 4.9%, ranking 4th and 5th respectively. However, AVENE growth rates are very high (+57.5%) compared to 2009, so if the trend continues, this brand may then go into significant lead over BIODERMA.

Table 17

TOP-10 selective beauty products brands (Premium and Deluxe class)

Position No.	Brand name	Share in total sales of selective beauty products	Increase to 2009	TOP-3 trade names within the brand	Share in total brand sales
1	VICHY	47,5%	-9,1%	VICHY LIFTACTIVE KIT CXP VICHY THERMAL WATER VICHY NEOVADIOL GF NIGHT CREAM	2,9% 2,4% 2,2%
2	LA ROCHE-POSAY	12,9%	-2,5%	LA ROCHE-POSAY THERMALE WATER LA ROCHE-POSAY EFFACLAR FOAMING CLEANSING GEL LA ROCHE-POSAY HYDRAPHASE XL LIGHT MOISTURIZER	7,9% 3,9% 3,7%
3	LIERAC	11,1%	-19,3%	LIERAC DIOPTICREAM ANTI WRINKLE CREAM AROUND EYES LIERAC EXCLUSIVE PREMIUM WRINKLE FILLING LIERAC KIT IN ASSORTMENT	4,6% 3,9% 3,2%
4	AVENE	5,0%	57,5%	AVENE THERMAL WATER AVENE CLEANANCE SOAP-FREE FACIAL CLEANSER AVENE HYDRANCE OPTIMAL LEGER CREAM	17,4% 5,5% 4,2%
5	BIODERMA	4,9%	2,0%	BIODERMA SENSIBIO CLEANSING WATER BIODERMA SEBIUM CLEANSING WATER BIODERMA ATODERM CREAM	11,4% 11,1% 6,6%
6	URIAGE	4,6%	-15,7%	URIAGE THERMAL WATER URIAGE ISOLIFT EYE CONTOUR URIAGE LAVANTE CLEANSING CREAM	7,8% 4,7% 3,9%
7	ROC	2,8%	-50,0%	ROC COMPLETE LIFT LIFTING DAILY MOISTURISER ROC MULTI CORREXION ANTIAGE EYE CONTOUR CREAM ROC MULTI CORREXION ANTIAGE MOISTURIZING CREAM DAY/NIGHT	8,8% 6,7% 6,0%
8	LUSERO	1,7%	-59,0%	LUSERO TRANSDERMAL PATCHES LUSERO TRANSDERMAL PATCHES KIT LUSERO ANTI-CELLULITE TRANSDERMAL PATCHES	49,5% 15,5% 14,0%
9	FILORGA	1,6%	66,9%	FILORGA OPTIM-EYES EYE CONTOUR CREAM FILORGA ISO-STRUCTURA FIRMING DAY CRÈME FILORGA SLEEP AND PEEL NIGHT SMOOTHENING CREAM	22,0% 15,8% 15,3%
10	CAUDALIE	1,6%	-17,9%	CAUDALIE VINEXPERT PREMIER CRU GLOBAL ANTI-AGE CARE CAUDALIE VINEXPERT EYE AND LIPS ANTI-AGE SERUM CAUDALIE VINOSOURCE RICHE NUTRITIOUS ANTI WRINKLE CREAM	6,4% 6,0% 5,2%

Source: DSM Group. **ISO 9001:2008**

In mass-market beauty products ranking was also reshuffled - NIVEA brand left the first place by giving the lead to JOHNSON BABY series of children's beauty products. However, the position of JOHNSON BABY can not be called confident enough – the gap from NIVEA is only 0.2% by share. It is possible that NIVEA will overtake JOHNSON BABY by sales volume in the nearest future. UMNAYA EMAL, which improved its position in the ranking (5th place in 2009) due to good (+24.1%) increase in sales occupies the third place. Among the domestic brands in the mass-market rating KORA brand is still present, which despite the decline in sales volume by -18% was able to rise and maintained its position in the ranking.

Table 18

TOP-10 mass-market beauty product brands

Position No.	Brand name	Share in total sales of mass-market beauty products	Increase to 2009	TOP-3 trade names within the brand	Share in total brand sales
1	JOHNSONS BABY	6,8%	-0,8%	JOHNSONS BABY TISSUES TENDER CARE JOHNSONS BABY BABY OIL JOHNSONS BABY POWDER	2,9% 2,4% 2,2%
2	NIVEA	6,6%	-24,0%	NIVEA LIP CARE HYGIENIC LIP STICK NIVEA LIP CARE LIP BALM NIVEA BALL-TYPE DEODORANT F/WOMEN	7,9% 3,9% 3,7%
3	UMNAYA EMAL	5,1%	24,1%	UMNAYA EMAL NAIL LAQUER. STRENGTHENER WITH PROTEIN UMNAYA EMAL NAIL LAQUER 3 IN 1 UMNAYA EMAL NAIL LAQUER, DAMAGED NAILS REDUCER	4,6% 3,9% 3,2%
4	GARNIER	3,8%	-14,3%	GARNIER HAIR DYE IN ASSORTMENT GARNIER DEODORANT SPRAY GARNIER BEAUTY RATION ROLLERBALL FOR SKIN AROUND EYES	17,4% 5,5% 4,2%
5	CONTEX	3,6%	3,8%	CONTEX WAVE GEL CONTEX STRONG GEL CONTEX ROMANTIC GEL	11,4% 11,1% 6,6%
6	KORA	2,9%	-18,2%	KORA REGENERATING LIFTING CREAM KORA SHAMPOO FOR HAIR STRENGTHENING/GROWTH KORA SERUM CREAM FOR AGED SKIN AROUND EYES ANTI-WRINKLE/EDEMA	7,8% 4,7% 3,9%
7	STYX	2,7%	-21,6%	STYX MASSAGE OIL STYX SOAP IN ASSORTMENT STYX FACIAL CREAM JOJOBA	8,8% 6,7% 6,0%
8	L'OREAL	2,6%	-42,2%	L'OREAL HAIR DYE IN ASSORTMENT L'OREAL KIT L'OREAL REVITALIFT DAY CREAM	49,5% 15,5% 14,0%
9	FLORESAN	2,4%	12,4%	FLORESAN KERA-NOVE SHAMPOO IN ASSORTMENT FLORESAN FITNESS SLIMMING BODY GEL FLORESAN FITNESS HOT ANTI-CELLULITE BODY SCRUB	22,0% 15,8% 15,3%
10	DIZAO	2,2%	-8,2%	DIZAO COLLAGEN MASK FOR FACE/NECK 100% COLLAGEN ANTIOXIDANT PROFESSIONAL DIZAO COLLAGEN MASK FOR FACE/NECK 100% HYALURONIC ACID DIZAO COLLAGEN MASK FOR EYES 100% COLLAGEN ANTIOXIDANT PROFESSIONAL	6,4% 6,0% 5,2%

Source: DSM Group. **ISO 9001:2008**

Unlike mass-market segment the leader in the ranking of medicinal beauty products has not changed - domestic brand SOFIE is still a leader with sales almost double higher than the sales of its nearest competitor ALERANA. While SOPHIE and ALERANA sales are increasing (+6.8% and +30.4%, respectively), the sales volume of MUSTELLA, which in 2009 occupied the second place, reduced significantly (-23.6%), therefore in 2010 this brand moved to the third place.

Table 19

TOP-10 medicinal (active) beauty product brands

№ п/п	Бренд	Доля от общего объема продаж лечебной косметики	Прирост к 2009 году	ТОП-3 торговых наименований внутри бренда	Доля от общего объема продаж бренда
1	СОФЬЯ	6,2%	6,8%	СОФЬЯ КРЕМ Д/НОГ ПИЯВИТ СОФОРА СОФЬЯ КРЕМ Д/НОГ С ЭКСТРАКТОМ ПИЯВКИ СОФЬЯ КРЕМ Д/ТЕЛА ПЧЕЛИН ЯД	29,3% 20,9% 20,2%
2	АЛЕРАНА	3,9%	30,4%	АЛЕРАНА БАЛЬЗАМ-СПРЕЙ Д/РОСТА ВОЛОС ЖЕН АЛЕРАНА НАБОР В АСС АЛЕРАНА ШАМПУНЬ Д/НОРМ/СУХ ВОЛОС	25,0% 15,3% 14,9%
3	MUSTELA	3,7%	-23,6%	MUSTELA СТЕЛАТОПИЯ КРЕМ-ЭМУЛЬСИЯ MUSTELA 9 МЕСЯЦЕВ КРЕМ П/РАСТЯЖЕК ДВОЙНОГО ДЕЙСТВИЯ MUSTELA КРЕМ ПОД ПОДГУЗНИК	11,7% 9,7% 8,9%
4	BELVEDER	3,2%	-1,8%	BELVEDER БАЛЬЗАМ Д/ГУБ РОЗОВОЕ МАСЛО BELVEDER ПОМАДА АЛОЭ ВИТ Е BELVEDER БАЛЬЗАМ Д/ГУБ ВИТ С	15,6% 11,9% 11,2%
5	DOLIVA	3,2%	24,3%	DOLIVA КРЕМ Д/ЛИЦА Д/СУХ/ЧУВСТВ КОЖИ DOLIVA VITALFRISCH Q10 PLUS КРЕМ П/МОРЩ НОЧНОЙ DOLIVA ГЕЛЬ Д/КОЖИ ВОКРУГ ГЛАЗ	8,7% 6,4% 6,1%
6	БОРО	2,6%	20,5%	БОРО ПЛЮС КРЕМ ЗЕЛЕНЫЙ БОРО ПЛЮС КРЕМ РОЗОВЫЙ БОРО ПЛЮС АНТИСЕПТИЧЕСКИЙ	31,1% 31,0% 16,8%
7	MICHEL	2,3%	15,7%	MICHEL ФРУКТ ПОЦЕЛ ГИГИЕН ПОМАДА В АССОР MICHEL STOPPROBLEM САЛИЦ ЛОСЬОН Д/ЧУВСТ/КОМБ КОЖИ MICHEL ФРУКТ ПОЦЕЛ ГИГИЕН ПОМАДА НАБОР	43,6% 12,3% 7,3%
8	ВИТАОН	2,2%	-7,5%	ВИТАОН МАСЛО НАРУЖН БАЛЬЗАМ КАРАВАЕВА ВИТАОН ВИТАОН-ЛЮКС МАСЛО	47,1% 28,4% 15,6%
9	МАЛАВИТ	2,1%	2,0%	МАЛАВИТ РАСТВОР МАЛАВИТ КРЕМ-ГЕЛЬ МАЛАВИТ ШАМПУНЬ	72,0% 18,8% 2,0%
10	КРИОФАРМА	2,0%	2,5%	КРИОФАРМА АЭРОЗОЛЬ Д/УДАЛ БОРОДАВОК ЗАМОРАЖ КРИОФАРМА СРЕДСТВО Д/УДАЛ БОРОДАВОК Д/СТОП	97,2% 2,8%

Source: DSM Group. **ISO 9001:2008**

Although the results shown by pharmacy beauty products in 2010 may not be called joyful, the prospects for this segment remains very high.

Very often among the beauty products in the pharmacy you can find products of the same brands being sold in the supermarket, in the subway, on the stalls in the underground passages, and even on the street market. Pharmacy beauty products sale is an up-to-date direction of beauty products distribution. For beauty products manufacturers, product placing in pharmacy is not just another sales channel, but also a great opportunity to acquaint the general public with their brand without any kind of advertising costs. Russians have traditionally high level of confidence to pharmacy as to a pharmaceutical institution, and, consequently, everything sold there is automatically considered “good”, more “qualitative” and more “safe”. Therefore, for non-pharmacy brands it is also the opportunity to quickly gain the trust of the buyer. For the pharmacies themselves selling beauty products is a source of additional income. And the importance of this segment increases in the light of state regulation of drug product range.

Therefore, according to our forecasts the growth of beauty products in pharmacies in 2011 will return to pre-crisis level of 15% annually.

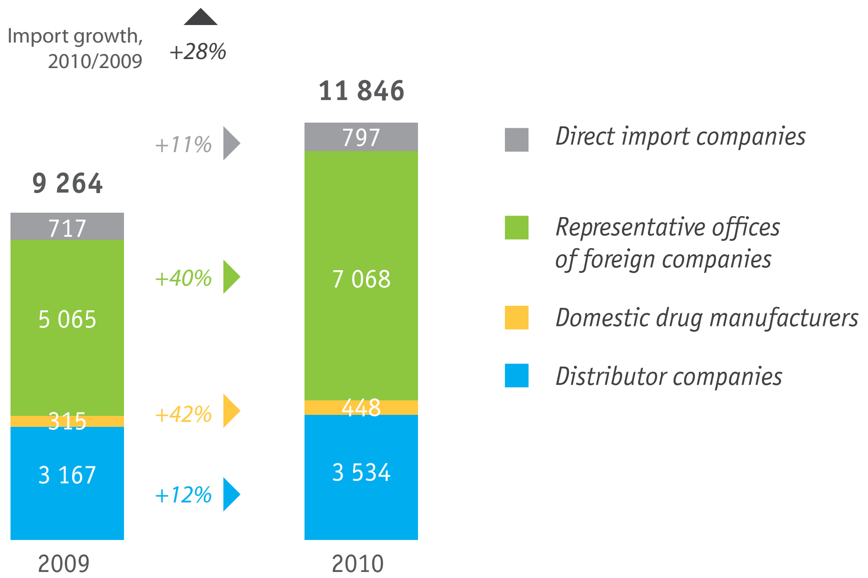
Russia will gradually close the market for imported drugs and develop its own pharmaceutical industry. This was stated by Prime Minister Vladimir Putin during a "direct line interview" with the citizens.

Meanwhile, imported drugs play an important role in drug provision of the population. And therefore the drug import is increasing.

Diagram 35 shows drug import volume in Russia in 2010.

Diagram 35

Import volume, millions of dollars



Source: Diamond Vision

Drug import volume in Russia in 2010 amounted to 11.8 billion dollars (in customs prices), which is 28% higher than that in 2009. This is a huge growth. At that, in national currency (in ruble terms) import volume is quite high +23% (about 360 billion rubles). In real terms the imported drugs volume is 20% higher than that in 2009. Such dynamics of import indicators is associated with the legislative innovations on the drug market.

For example, in August 2010, the import volume exceeds 2-3 times the monthly average for the year. This is associated with enactment of the law "On Medicinal Products Circulation" in September 2010, which changed the requirements to medicinal products package. The new law requires the manufacturers to indicate the product form on the primary drug packaging (blister, vial, etc.), and the number of registration certificate on the secondary packaging (box). This was not required so far. In August, the Ministry of Health Care and Social Development allowed to sell drugs in the old packaging manufactured and imported before September 01. In case the sale of drugs imported after September 01 will be limited, manufacturers have increased the import to prevent any possible faults in the supply of drugs. If in August imports would be at the level of the whole year, the annual volume growth could be at 10-15%.

Simplified rules of import to Russia of medicinal products for medical indications are the favorable draft law in the field of import in 2010. The maximum time for consideration of the import application is limited to five working days. Import authorization is issued in the form of electronic document certified by digital signature. Patients from the region do not need to come to Moscow to submit the application, to stand in a queue and wait for the authorization.

Table 20 shows the shares of different groups of drug importers in Russia (by import sales value of certain group in 2009 and 2010).

Table 20

The shares of different groups of drug importers in Russia by drug import volume in 2008 and 2010

Ranking	Importers	Share by import volume, %	
		2009	2010
1	Distributor companies	34,18	29,83
2	Representative offices of foreign companies	54,67	59,66
3	Direct import companies	7,74	6,73
4	Domestic drug manufacturers	3,41	3,78
	Total:	100	100
	Import volume, $ millions	9 264	11 846

Source: DSM Group. **ISO 9001:2008**

As Table 20 shows, in 2010 about 90% of the total drug import volume is covered by the two groups of importers – distributor companies and representatives of foreign companies. In 2010, import structure by importers practically did not change compared to 2009.

The maximal import share is covered by the representatives of foreign companies, their share in total volume increased almost by 5%, while distributor companies dropped by the same value.

The trend of recent years is share growth of foreign companies' representatives by import volume. It was expected that with the introduction of new pricing rules for vital drugs their share will start to decrease. But so far it is not the case. Recorded prices already include the retail charge of representative offices, and the income is simply redistributed between the manufacturer's headquarters and representative office in Russia. Thus, we can only expect growth in this segment.

Let us look at the leaders in the importer groups heading the ranking - distributor companies and representatives of foreign manufacturers, and reasons of changes in the ranking as well.

Table 21 shows TOP-10 representatives of foreign manufacturers by import volume in 2010.

Table 21

TOP-10 representative offices of foreign manufacturers by import volume in 2010

Ranking	Representative office of foreign manufacturers	Share by import volume of the "Representative offices of ...", %		Increase to 2009, USD
		2009	2010	
1	NOVARTIS	11,9%	14,5%	67%
2	AVENTIS	11,9%	13,7%	57%
3	GLAXOSMITHKLINE	5,0%	6,6%	81%
4	BAYER	3,5%	6,1%	138%
5	TEVA	1,3%	5,6%	490%
6	NYCOMED	4,3%	5,2%	66%
7	BERLIN-PHARMA	3,5%	5,2%	102%
8	SERVIER	7,7%	5,0%	-12%
9	JOHNSON & JOHNSON	4,3%	4,5%	44%
10	ZENECA	4,2%	4,4%	43%
		Total:	71%	

Source: Diamond Vision

In 2010, group "Representative offices of foreign companies" like the rest of the groups increased by 40%, which is the maximum growth among all groups. The trend of the previous years was maintained: manufacturers wish to have more control over their drug supplies to Russia, develop independently pricing policy in accordance with the market reality and react to changes of market situation more promptly. Concentration in the importer group "Representative offices of the foreign companies" increased from 60% to 70%.

As in the previous years, NOVARTIS and AVENTIS PHARMA are the leaders of the importer group "Representative offices of foreign companies".

New names are constantly appearing in the ranking, so the representative office of TEVA was rated at the 5th place, even in dollars the growth of this company is impressive - more than 5-fold. It can be stated that the manufacturer switched to its own supplies to Russia, whereas previously the main import channel by TEVA was through distributors.

Table 22 shows TOP-10 distributors by drug import volume in Russia.

Table 22

TOP-10 distributors by drug import volume in Russia in 2009-2010

Ranking	Distributor	Share by import volume of the group "Distributor companies", %		Increase to 2009
		2009	2010	
1	CV "Protek"	19,8%	19,0%	7%
2	SIA International	20,1%	17,7%	-1%
3	R-Farm	8,8%	14,6%	86%
4	ROSTA	8,5%	10,8%	43%
5	Katren	10,4%	9,4%	2%
6	Alliance Healthcare Russia	6,9%	6,2%	1%
7	MORON	3,7%	3,7%	11%
8	BIOTEK	2,9%	2,7%	5%
9	EUROSERVICE	2,3%	2,3%	10%
10	NATIONAL DISTRIBUTOR COMPANY	1,9%	2,0%	18%
		Total:	88,5%	

Source: Diamond Vision

As is shown in Table 22, CV Protek and SIA International remain the largest distributors by import volume in the group "Distributor companies". In 2010, there was another reshuffle among them, and Protek won back the first place, the gap between them amounted to 1.3% by share.
The share of 10 largest distributor-importers in the total import volume of the "Distributor companies" group increased by 3% and amounts to about 89% in 2010.

R-Farm keeps the leading positions (already the 3rd place according to the results of 2009). It is associated with active participation of this company in the DLO program and other budget procurement. The company showed the maximum growth by 86% compared to 2009. Its share increased by 6% and amounted to 14.6%.

The TOP-10 of distributor-importers is increasingly covered by specialized suppliers. Year 2010 was not an exception. EUROSERVICE, distributor specializing in hospital and tender market, occupies the 9th position in the ranking. When analyzing the companies outside the TOP-10, it should be expected that such companies as, for example, PULS PHARMACEUTICAL COMPANY, IRWIN-2 will enter the ranking the next year.

Table 23 shows TOP 20 drug manufacturers by drug import volume in Russia with regard to all groups of importers.

Table 23

TOP-20 drug manufacturers by drug import volume in Russia with regard to all groups of importers in 2009-2010

Ranking 2009	Ranking 2010	Manufacturer	Shares by import value, $, % 2009	Shares by import value, $, % 2010
1	1	SANOFI-AVENTIS	5,6%	6,7%
4	2	F.HOFFMANN-LA ROCHE LTD	4,1%	4,5%
5	3	NOVARTIS	4,0%	4,2%
7	4	BERLIN-CHEME /A.MENARINI /	3,5%	4,1%
6	5	BOEHRINGER INGELHEIM	4,0%	3,7%
3	6	BAYER	4,2%	3,6%
11	7	GLAXOSMITHKLINE	2,6%	3,1%
12	8	TEVA PHARMACEUTICAL	2,6%	2,9%
14	9	NYCOMED	2,2%	2,8%
8	10	GEDEON RICHTER	3,2%	2,6%
10	11	SCHERING-PLOUGH	2,8%	2,5%
13	12	PFIZER	2,4%	2,4%
16	13	ASTRAZENECA UK LTD	2,0%	2,3%
20	14	LEK D.D.	1,5%	2,2%
2	15	JANSSEN PHARMACEUTICA N.V.	4,3%	2,0%
18	16	SOLVAY PHARMACEUTICALS B.V.	1,8%	1,8%
15	17	KRKA	2,0%	1,8%
9	18	SERVIER	3,2%	1,6%
30	19	ASTELLAS PHARMA INC	0,7%	1,5%
19	20	NOVO NORDISK	1,6%	1,4%
Total:				57,8%

Source: Diamond Vision

SANOFI-AVENTIS, F.HOFFMANN-LA ROCHE LTD, NOVARTIS are the largest manufacturers by drug import volume in Russia in 2010.

The share of TOP-20 RTU drug manufacturers by import volume in Russia in 2010 amounted to 58%.

The maximum increase by the imported drugs volume is demonstrated by ASTELLAS (almost 3-fold increase, which allowed the company to enter the TOP-20 from the 30th positions in 2009) and LEK (+89%).

The volume of imported drugs of JANSSEN, SERVIER decreased that affected their share and ranking position.

It seems to me that soon it will be difficult to separate the pharmacy networks section from the distributors section. Among the leading players in the market there are more and more networks that are somehow related to someone from among the largest wholesalers.

Even the leader "36.6" Pharmacy Network is now connected with distributor SIA International. In January 2010, SIA completed a deal on buying 25% of "36.6" Pharmacy Network shares and became one of the largest shareholders of the retailer. To date, about 7 networks of the TOP-20 pharmacy networks are inseparably connected with a distribution chain: "36.6" Pharmacy Network - SIA, Rigla - Protek, Stariy Lekar and Nol Tri - Oriola KD, Raduga - ROSTA, Melodiya Zdorovya – Katren, etc. At that, some of the pharmacy networks have a wholesale store and are a strong player on the regional market, such as the Implozia, Klassika.

Alliances "Distributor - Pharmacy Network" should be profitable. On the one hand, pharmacy network is a guaranteed distribution channel for distributor, on the other hand, in such circumstances pharmacy network can certainly get a favorable purchase price, which will allow to organize more free final pricing process (or to get a higher margin, or to arrange a dumping). And most important is the redistribution of income from the two channels on the same goals.

It is very clearly that in 2010 the sponsored networks developed actively both through opening new outlets, and through sale and purchase of other players.

One of the largest deals in 2010 is purchase by Oriola KD (Stariy Lekar) of "03 Pharmacy" network. As a result, the network has in total 254 outlets and its share is about 1.1% (+0.2% compared to 2009).

We can also mention a number of deals performed in 2010 by pharmacy network Rigla: pharmacy network Panacea in Leningrad region, pharmacy network OAO Biopharm in Yaroslavl, etc. Generally, Rigla network can be called "the experimenter of the year" in 2010. Company continued actively its multi-format policy initiated in 2009. About 60 outlets operating under the brand "Bud zdorov" were opened for the twelve months of 2010. These pharmacies operate as discounters - pharmacies with a minimum retail charge for popular articles. In 2010, Rigla also launched "Centers of active beauty products", in which you are free to undergo diagnostics of skin and hair, there is a wide selection of pharmaceutical beauty products of high-priced brands. At the end of 2010 five outlets were already opened in Moscow under the brand "Mal mala menshe" - specialty shops for moms and kids.

But in the category "breakthrough of the year" pharmacy network Melodiya Zdorovya owned by distributor Katren would be a winner. Firstly, the network entered the TOP-20 for the first time. Secondly, the pharmacy network shows one of the maximum growth rates by turnover compared to 2009 - 58%. And thirdly, the quantitative composition of the network increased during 2010 by 33% to 232 outlets.

Pharmacy networks, which entered the TOP-20 in 2010 can be conventionally divided into 2 types: those who actively developed through intensive and extensive growth, and those who were engaged in business optimization. The last have no obvious increase by turnover and their number of outlets in the network remained at the level of 2009 or decreased. Examples of such networks can be "36.6", Pharmacor, Raduga, Pervaya Pomosch, etc.

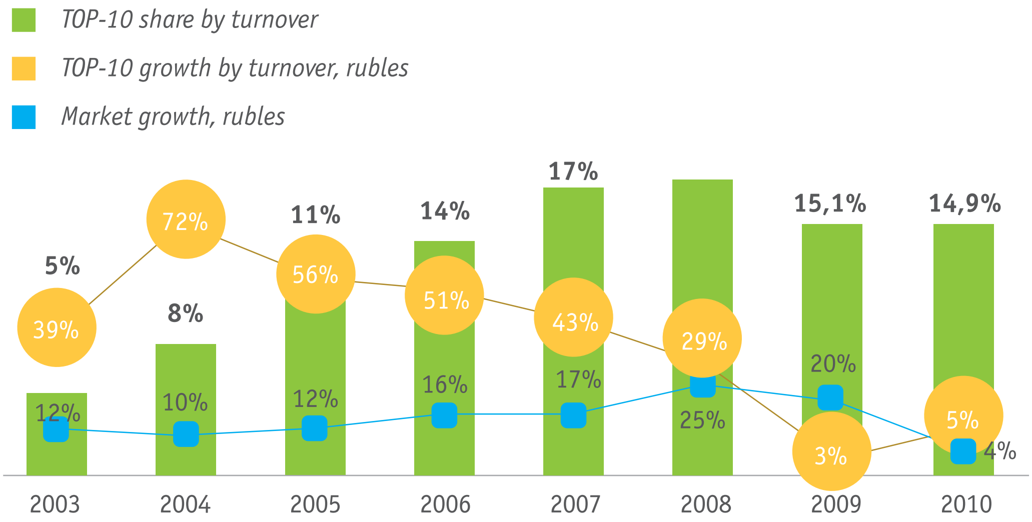
Let us consider "36.6" network more detailed. The second consecutive year, the sales of this company are reducing by about 20% a year, and as a result in 2010 the share of this player dropped to 2.8% (-0.6% compared to 2009). At the same time the quantitative composition of the network is also reducing. At the end of the year the network consisted of 989 outlets, which is 30 outlets fewer than in 2009. As a result no one has taken a boundary of 1000 outlets. And the plans about the network of 2,000-3,000 outlets by 2010 have already been forgotten long ago. However, the network is actively developing its position under its own brand ("Private label"). In 2010, the share of these positions in the network turnover was about 10%.

"36.6" Pharmacy Network was the innovator on the pharmacy market in establishing "Private label". Now about 10 companies are developing these projects or are considering the possibility of entering the market with the goods under their own brand, including Rigla, Doctor Stoletov, Pharmacor, A5, Pervaya Pomosch.

In 2010, TOP-10 networks have totally grown by 5% compared to the same period in 2009. The TOP-10 share amounted to 15%. TOP-10 managed to reverse the trend of "crisis" year, when the pharmacy networks grew significantly below the market: in 2010 there is a parity in growth. But the market concentration remained at the level of 2009.

Diagram 36

Concentration of TOP-10 pharmacy networks

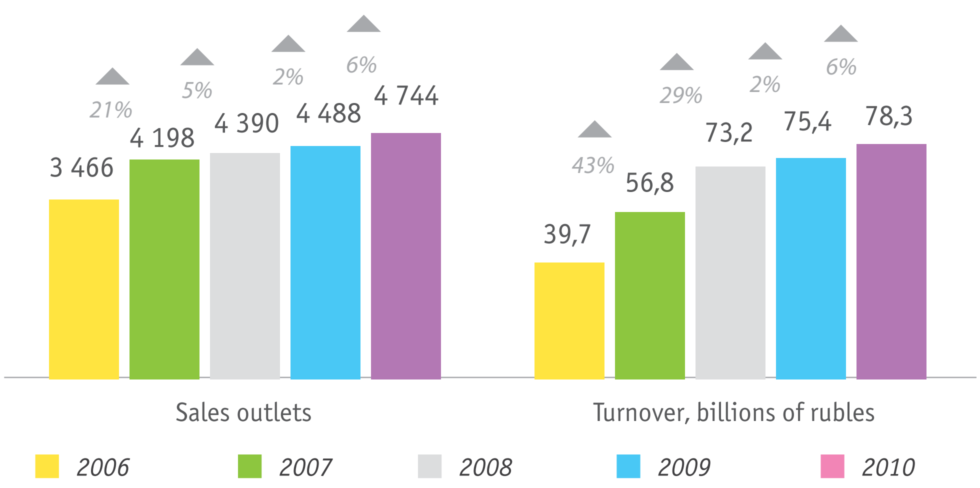


Source: DSM Group. **ISO 9001:2008**

Diagram 37 shows growth of TOP-10 pharmacy networks by sales turnover and number of outlets in 2006-2010. Business optimization, crisis tendencies affected not only the networks turnover, but also the quantitative composition of the TOP-10. The last three years a slight increase by this indicator is observed. In 2010 it amounted to 6%. This is only 256 outlets more than in 2009. Since 2007, the TOP-10 totally increased by 550 outlets, while only in 2007 there was a growth by 730 outlets compared to 2006. Thus, the concentration on the market by this indicator is not growing as well.

Diagram 37

Dynamics of TOP-10 pharmacy networks growth of sales turnover and number of outlets



Source: DSM Group. **ISO 9001:2008**

Table 24 shows pharmacy networks ranking in the commercial sector including quantitative and value growth parameters in 2010.

Table 24

Pharmacy networks ranking by sales turnover in 2010 on the commercial pharmacy market

Ranking	Pharmacy Networks	Volume, billions of rubles	Share of the segment 2010	Turnover increase compared to 2009	Outlets number
1	36.6	14,8	2,8%	-12%	989
2	Rigla	12,5	2,4%	6%	648
3	Implozia	9,6	1,8%	10%	663
4	Pharmacor	8,5	1,6%	-4%	402
5	Raduga	6,4	1,2%	17%	502
6	Stolichnye apteki	6,2	1,2%	5%	237
7	Oriola	5,8	1,1%	25%	254
8	Pharmaimpex	5,0	1,0%	50%	259
9	A5	4,9	0,9%	39%	407
10	Doctor Stoletov	4,6	0,9%	0%	396
11	Vita	4,6	0,9%	-4%	318
12	Pervaya Pomosch	3,7	0,7%	-12%	149
13	Samson-Pharma	3,7	0,7%	22%	16
14	Pharmland	3,5	0,7%	13%	199
15	Mosoblpharmacia	3,5	0,7%	-16%	500
16	Zdorovye lyudi	3,3	0,6%	-20%	207
17	Opeka	3,3	0,6%	20%	260
18	Klassika	3,3	0,6%	1%	102
19	Melodiya Zdorovya	3,2	0,6%	58%	232
20	Nevis	2,8	0,5%	49%	168

Source: DSM Group assessments. **ISO 9001:2008, pharmacy networks own data**

Two additional players from the second ten entered TOP-10 of pharmacy networks. High growth rates both of the quantitative composition and turnover allowed Pharmaimpex and A5 to take line 8 and 9, respectively.

If we talk about A5 pharmacy network, then the company has ambitious goals and it manages to implement them so far. The network showed the maximum growth by the number of outlets, and increased by 150 pharmacies. Now A5 is planning to open its outlets on all trade sites of X5 Retail Group (retail networks Pyaterochka, Perekerestok, Carousel).

Also it should be noted that the gap between "36.6" and Rigla networks decreased from 1.3% to just 0.2%. And 2011 will most likely be the year when the market will have a new leader. Despite the fact that Samson-Pharma pharmacy network had only 16 pharmacies by the end of the year, the network entered the ranking and during 2010 rose by 4 lines up and finished on the 13th place. This is not by chance. The network operates as a discounter, and this format is very well established among the consumers. It is no coincidence that the other major players also open pharmacies in this format. Low retail charge for the high-priced articles allows to make high turnover. During the 2009-2010 TOP-10 Russian pharmacy networks showed restrained results. For 2011 more optimistic figures are planned. "36.6" Pharmacy Network expects revenue growth by 21%

in 2011. Rigla network revenue in 2011 will grow by 10-15% compared to 2010. In general, these figures are within pharmaceutical market growth, and the companies' plans are seen actually enforceable. Moreover, they can be achieved through mergers and acquisitions.

One of the likely contenders in respect of purchase in 2011 could be the state networks Stolichnye Apteki and Mosoblpharmacia. Let us remind that in 2010 the Government of Moscow region twice tried to sell 100% shares of OAO Mosoblpharmacia owned by the region. But so far there is no buyer.

The past year was eventful. Distribution segment was not an exception.

In spring 2010 there was one of the significant events associated with the wholesale sector: pharmaceutical distributor Protek held IPO. Let's not talk about financial results. But the company became the first in many years, who entered the stock market (before IPO was held only by "36.6" Pharmacy Network (2006) and Pharmstandart (2007)). The obtained funds PROTEK planned to spend on financing the retail segment growth (RIGLA) and further development of the production segment (SOTEKS). This was implemented to great extent, at least in respect of RIGLA (network initiations launched in 2010 are described above).

Business diversification syndrome more and more gets into the distribution sector. Government legislation and market conditions leave fewer opportunities for the survival of the wholesale companies (profitability of this business is reducing). As already mentioned, almost all the wholesalers, TOP-10 members, are working in conjunction "distributor – pharmacy network".

On the other hand, PROTEK, SIA and Biotek have long had production capacities in their holdings. In light of establishing pharmaceutical clusters and implementing the PHARMA-2020 strategy, this trend has also received additional development.

Thus, PROTEK and NP CVT Chemrar signed an agreement on strategic partnership, whose one of the principal directions will be the creation of innovative medical and pharmaceutical cluster around Phystech.

In the Volgograd region distributor SIA INTERNATIONAL and OOO Tsaritsyn Capital participate in formation of pharmacological cluster. In this case, SIA will act as an "anchor" company and will be the main investor of the construction.

"Production" direction is also being developed by specialized distributors. Thus, in 2010 R-PHARM acquired the unfinished plant for the production of baby food in the Yaroslavl region and NOVOSYBCHEMPHARM Company.

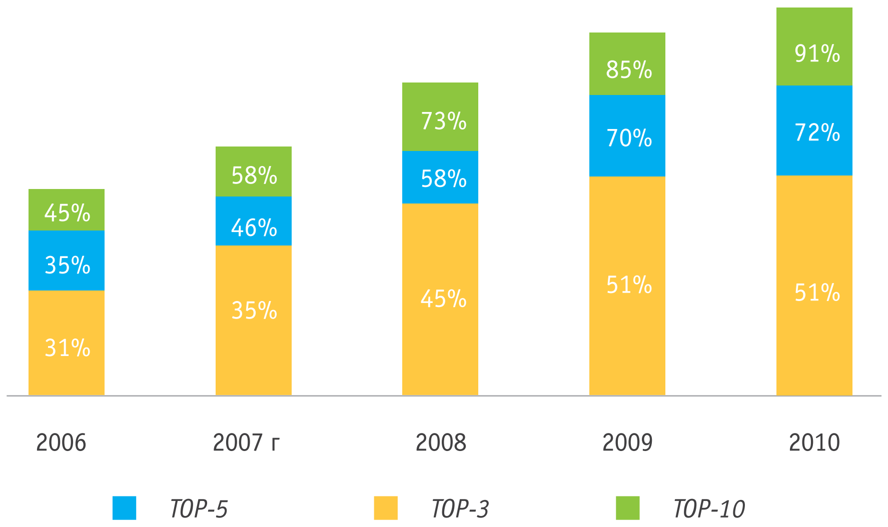
And KATREN chose the other way: its goal is to become an international distribution company. KATREN transacted the first deal in 2008 - it acquired OOO Venta.LTD (Ukraine). To date, Katren has in its composition Kazakh distributor TOO Amity International and ODO Dominantafarm - Belarusian pharmaceutical distributor, which joined the Group in 2010.

Finally, we have to note that we will no longer see MORON among the distributors. Company rebranding was completed and it will be named ORIOLA, this process was the logical completion of the company acquisition in 2010 by Finnish corporation Oriola-KD.

And now let us look at the financial results of the distributors' work in 2010.
The concentration of distributors is growing steadily. In 2010, the share of TOP-10 distributors amounted to little more than 90%. The main growth accounted for distributors of the second "Five" occupying places from 6 to 10. But the share of the TOP-3 leading distributors did not change and amounted to 51%.

Diagram 38

Concentration in the distribution segment



Source: DSM Group. **ISO 9001:2008**

In 2010 the leader has changed. For the past three years, this line was occupied by SIA. Protek has lost its position after a fire in 2007. It took three years for the company to compensate the losses. In 2010, Protek showed an increase by 10%, which allowed to overtake SIA by almost 1% by share. It should also be noted that Protek is the first distribution company with annual turnover exceeding 100 billion rubles.

Table 25

TOP-10 distributors on the pharmaceuticals market

Ranking 2010	Distributor	Volume, billions of rubles	Share	Sales value increase
1	Protek	101,4	18,8%	10%
2	SIA	96,8	18,0%	3%
3	Katren	74,7	13,9%	11%
4	ROSTA	64,5	12,0%	12%
5	Alliance Healthcare	53,1	9,9%	38%
6	R-Pharm	34,5	6,4%	29%
7	Oriola	23,3	4,3%	15%
8	Puls	13,4	2,5%	35%
9	Biotek	13,3	2,5%	-19%
10	Imperia-Pharma	13,2	2,5%	16%

Source: DSM Group. **ISO 9001:2008,** companies own data, agency expert data
Note: the sales volume is shown in pharmacy purchase prices with VAT included

In 2010, a new concept appeared at the Russian pharmaceutical market – "pharmaceutical cluster".

According to PHARMA 2020 strategy, pharmaceutical cluster is a group of geographically localized interconnected innovative companies and drug developers, production companies, vendors of equipment, component parts, specialized services, and infrastructure objects: research institutes, higher educational institutions, technology parks, business incubators and other organizations complementing each other and reinforcing the competitive advantages of individual companies and the cluster as a whole. The hallmark of effective clusters is the output of innovative products.

Development of the pharmaceutical industry along with the development of medical equipment and technology are announced in Russia the most important direction of economic modernization.

The strategy of pharmaceutical industry development to 2020 set an ambitious goal - to switch to an innovative development model. It is planned that after 10 years the domestic drugs will have 50% market share in value terms, of which 60% will be innovative. In total, the matter in question is creation of 200 new drugs, which will be able to replace expensive imported analogs included in the list of strategic drugs.

Creation of pharmaceutical clusters is one of the tasks to achieve the objectives of PHARMA-2020; moreover, the format of the clusters was approved by the president. And local authorities were quick to report on the formation of such conglomerates.

Officially, such plans were announced in the Volgograd, Kaluga, Moscow, Rostov, Novosibirsk, Samara, Sverdlovsk, Tomsk and Yaroslavl regions, as well as in the Stavropol region, St. Petersburg, in Ural and Altai Territory, Republic of Tatarstan.

And manufacturers rush to secure a place in the new pharmaceutical entities in the hope to receive preferences and benefits from the government in the future.

But the main problem is that nobody knows so far how the pharmaceutical cluster should look like. Definition of cluster stated in the Strategy is too capacious for applicants. Therefore, as it often happens, the theory differed from practice at once. The concept of pharmaceutical cluster is understood rather one-sidedly so far, as a platform for the concentration of production. The foreign manufacturers solve the problem of "localization" of production in Russia, and, accordingly, then will get the opportunity to participate in public procurement on an equal terms with domestic manufacturers. And domestic manufacturers expect the state money allocated to meet the challenges of Pharma-2020: the government promises to allocate over 177 billion rubles for pharmaceutical industry development.

After the slack in the last crisis year, in 2010, the processes of mergers and acquisitions resumed among pharmaceutical manufacturers:

- Pharmstandart announced about the acquisition of 100% shares of ZAO Vindeksfarm.
- Sanofi-Aventis has acquired a controlling stake in the manufacturer of insulin ZAO Bioton Vostok, thus got "localized" in Russia.
- Teva acquired pharmaceutical manufacturer Ratiopharm.
- Swiss Novartis AG has completed the acquisition of 77% of shares of research company Alcon Inc from one of the world's largest food producers Nestle.
- Merck Sharp & Dohme has completed a merger with Schering-Plough in Russia.

Another trend of the year was the process of entering the IPO. The number of Russian pharmaceutical manufacturers, whose shares are quoted on the stock exchange, now has increased 2.5-fold.

Until 2010, only the shares of Pharmstandart and Veropharm were available on the stock market. In 2010, Diod (IPO took place in June), Institute of Human Stem Cells (December 2009) and Farmsintez (IPO took place in November) joined these companies by entering the IPO.

All these trends lead to the fact that the manufacturers concentration on the market is increasing. In 2010, the overall share of TOP-20 manufacturers amounted to about 50%.
The total share of imported drugs on the market is 78.4% in money and 34.6% in packages.
Leadership position is occupied by SANOFI-AVENTIS - high sales in the public sector (DLO and hospital purchases) allowed to overtake the commercial segment leader PHARMSTANDART, which therefore occupies the second place. The gap between them is 25%. PHARMSTANDART is only domestic manufacturer, which entered the TOP-20.

Table 26

TOP-20 manufacturing companies by sales volume on Russian pharmaceutical market in 2010

Ranking 2010	Change	Manufacturer	Sales value, millions of rubles 2010	Sales value increase	Share
1	-	SANOFI-AVENTIS	25 887	9,4%	4,72%
2	-	PHARMSTANDART OOO	20 875	0,2%	3,81%
3	-	NOVARTIS	19 459	-0,6%	3,55%
4	1	BERLIN-CHEMIE /A.MENARINI/	17 805	11,2%	3,25%
5	-1	BAYER HEALTHCARE	17 699	3,9%	3,23%
6	2	NYCOMED	16 039	18,4%	2,93%
7	-1	F.HOFFMANN-LA ROCHE LTD	15 919	0,7%	2,90%
8	1	TEVA PHARMACEUTICAL	14 199	10,9%	2,59%
9	-2	GEDEON RICHTER	14 118	3,9%	2,57%
10	2	PFIZER	12 144	13,3%	2,21%
11	-	SERVIER	11 891	4,5%	2,17%
12	1	LEK D.D.	11 476	7,8%	2,09%
13	-3	JANSSEN PHARMACEUTICA N.V.	11 428	-7,6%	2,08%
14	-	SCHERING-PLOUGH	10 050	0,4%	1,83%
15	1	KRKA	9 407	6,2%	1,72%
16	1	BOEHRINGER INGELHEIM	9 069	6,5%	1,65%
17	-2	GLAXOSMITHKLINE	8 982	-2,1%	1,64%
18	1	SOLVAY PHARMACEUTICALS B.V.	8 607	12,4%	1,57%
19	1	ASTRAZENECA UK LTD	8 603	29,5%	1,57%
20	2	ASTELLAS PHARMA INC	7 235	22,0%	1,32%

Source: DSM Group. **ISO 9001:2008**
Note: the sales volume shown is in final consumer prices with VAT included

What is new in this ranking? All the same company names, as in 2009. But the leaders show not the same growth as in 2009. If in the past year, manufacturers substantially grew by 20-30%, in 2010 the growth rate is 5-10%. Maximum growth is shown by ASTRAZENECA - almost 30%. And the minimal is a drop by 8% of JANSSEN PHARMACEUTICA sales turnover.

The only newcomer in the ranking is ASTELLAS PHARMA. By showing a maximum increase in TOP-20 companies (22%) the company occupied the 20th line in the ranking with a share of 1.3%.

NYCOMED also moves up well in the ranking - +2 positions and place 6 as a result. The main growth is achieved by increased share of the manufacturer in the hospital segment.

All information is based on the retail audit of the Russian pharmaceutical market data by DSM Group, QMS meets ISO 9001:2008 requirements

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