RUSSIAN PHARMACEUTICAL MARKET 2008

GROUP DSM

Russian and English version on CD

Dear colleagues!

What about the crisis on our market? I bet many of you open this report bearing in mind this question. I must disappoint you – we did not observe any particular crisis effects in 2008. Of course, there were some worries, but crisis did not refer to the main aspect – DEMAND.

It seems that professional public opinion inclines to optimistic scenario: in the 1st quarter pharmaceutics led the list of industries with growing wages and bonuses. I mean, when the problem is acute pharmaceutical companies' management believes in tomorrow. And the customer maintains this belief – drugs demand has been constantly high according to the results of weekly audit.

So, we are in unique situation – a well-being islet among common decline. This makes showy marketing projects and unexpected results possible.

P.S. The other day I was looking a final game of the world hockey championship. Russians dominate. And Russians are in the ads as well.

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Analytical report
Russian pharmaceutical market Results of 2008

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SUMMARY

2008 was the year of rise and unprecedented growth of the pharmaceutical market in Russia. Market capacity amounted to 458 billion rubles (or 18.4 billion dollars) which is 25% higher than that in 2007.

People started to buy more goods and spend more money on their health. As a result, the volume of commercial pharmacy segment of drugs increased by 25% and was 237 billion rubles (or 9.5 billion dollars). In 2008, the segment growth was influenced by two factors: increase in drug prices and increase of real consumption. In previous years, these factors had significantly lower influence. Price index of the commercial segment of drugs was 14%. In real terms, the growth was at the level of 12% as compared to decrease of this value in 2006-2007.

The financial crisis, which gained force in the 4th quarter, affected the market capacity in terms of foreign currencies. While during 1-3 quarter the market growth in ruble equivalent was 10% lower than the market growth in dollar equivalent, in the last quarter of 2008 the dollar moved up by 16% that leveled difference between growth figures. As a result, market increased only by 28% in terms of dollar.

In 2009, the commercial market of drugs will be mainly influenced by the financial crisis. This will be expressed in inflation with respect to drugs, particularly due to price growth the market will increase in value terms (according to our forecasts, the growth presumably will amount to 30%). In real terms the market will decrease.

The state segment also demonstrates growth. In most cases, it is associated with the DLO program. Drug Reimbursement Program (DLO) received new development incentive. High-priced drugs for treatment of seven nosologies were combined in a separate program, as a result, consumption of these drugs increased almost threefold. It was allocated a total of 73 billion rubles to finance the DLO program in 2008. According to the monitoring data provided by healthcare authorities of the constituent entities of the Russian Federation in 2008, medicinal products for the total amount of 66.2 billion rubles were supplied to regions (32% higher compared to that in the same period of 2007). As a result, 61.0 million prescriptions were serviced for 57.3 billion rubles.
The segment of hospital purchases increased by 17% compared to 2007, and its volume was 54 billion rubles.

The parapharmaceutical market growth rate corresponded to the general market dynamics; in 2008, this segment increased by 28% and amounted to 101 billion rubles. The largest segments of parapharmaceuticals are beauty products (19%) and NS (16%). In the reporting year, growth rate of this segment was slowed, and the market demonstrates saturation. In consideration of market trend (and financial crisis), this sector of pharmaceutical sales will be mostly affected according to our forecasts: in 2009, parapharmaceutical sales will grow twice slower than the market as a whole.

Drug import volume in Russia in 2008 amounted to 10 billion dollars, which is 36% higher than that in 2007.

In 2008 TOP-10 pharmacy networks grew a bit faster than the market, TOP-10 increased by 29% according to annual results. This allowed networks to increase their market consolidation level only slightly. As a result, the share of pharmaceutical networks amounts to 22% versus 21% in 2007. The increase in the number of outlets is significantly lower than that in the previous years – in total, the number of outlets belonging to TOP-10 increased only by 5%. In 2008, the pharmacy network "36.6" remains the leader of ranking. In 2008 network "A5" demonstrated breakthrough; for the year it showed 3-fold increase in terms of turnover.

Distribution segment leaders grew commensurate with the market. In spite of lower growth, SIA retained the first place and held more than 22% of pharmaceutical market share in Russia. PROTEK occupied the second line with only 0.5% difference.

Mergers and acquisitions wave continues in the manufacturing segment. Manufacturers try to strengthen their position on the market through extension of the portfolio with generic drugs. The change of the leader was the event of 2008 for the ranking of manufacturers: due to higher growth, NOVARTIS occupied the first line by drug sales previously held by SANOFI-AVENTIS. PHARMSTANDARD showed the best result among domestic manufacturers occupying the fifth ranking position.

1. PHARMACEUTICAL MARKET VOLUME IN RUSSIA

One of the basic documents adopted in 2008 was "The concept of long-term social and economic development of the Russian Federation for the period till 2020". The important part of this program is the issue of "expansion of the role of human capital assets as the main factor of economic growth".

"The objectives of Russia turning into global leader of world economy and achieving the level of developed countries by social well-being dictate new requirements to the healthcare system. On the one hand, the growing value of health is seen in the system of society priorities, new medical and social technologies emerge due to the changes in the demographic structure of population. On the other hand, due to development of medical technologies, the possibilities to have real influence on public health indicators rise significantly, as evidenced by major advances in fighting the most life-threatening diseases achieved in developed countries."

In order to achieve the planned figures it is envisaged to increase the share of governmental expenses for healthcare in the gross domestic product in 2008 2020 from 3.6 percent to at least 5.2 – 5.5 percent (taking into account the differences in the purchasing power parity of the ruble and currencies of other countries, the share of governmental expenses for healthcare in the gross domestic product will be about 10 – 11 percent, which is comparable with indicators of the leading foreign countries).

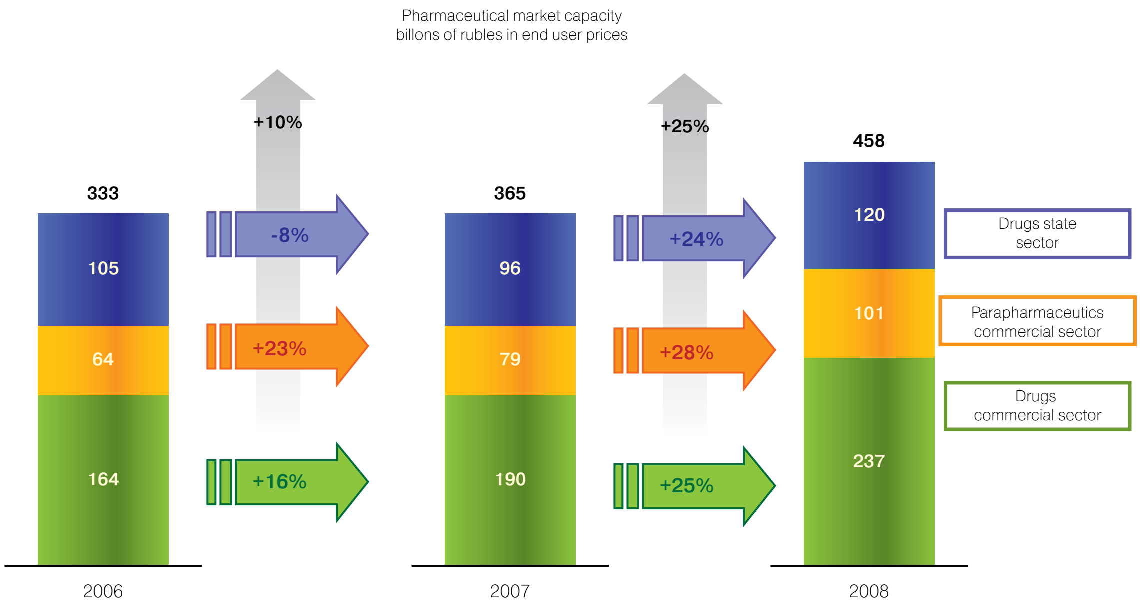
Meanwhile, the most ideas of this concept are still on paper.

In spite of that, Russian pharmaceutical market showed in 2008 an unprecedented growth and rise. It is unlikely that we can see such impressive results up to 2020.

Diagrams 1-2 show dynamics of retail sales value of Russian pharmaceutical market in 2006-2008.

Diagram 1

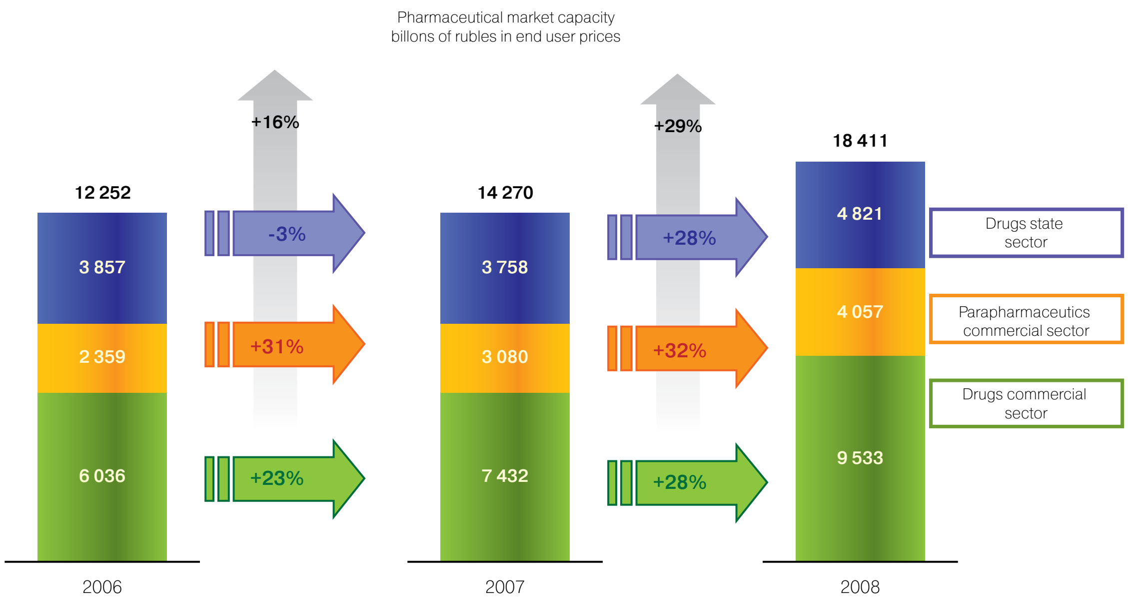
Pharmaceutical market capacity



Source: DSM Group. **ISO 9001:2000**

Diagram 2

Pharmaceutical market capacity



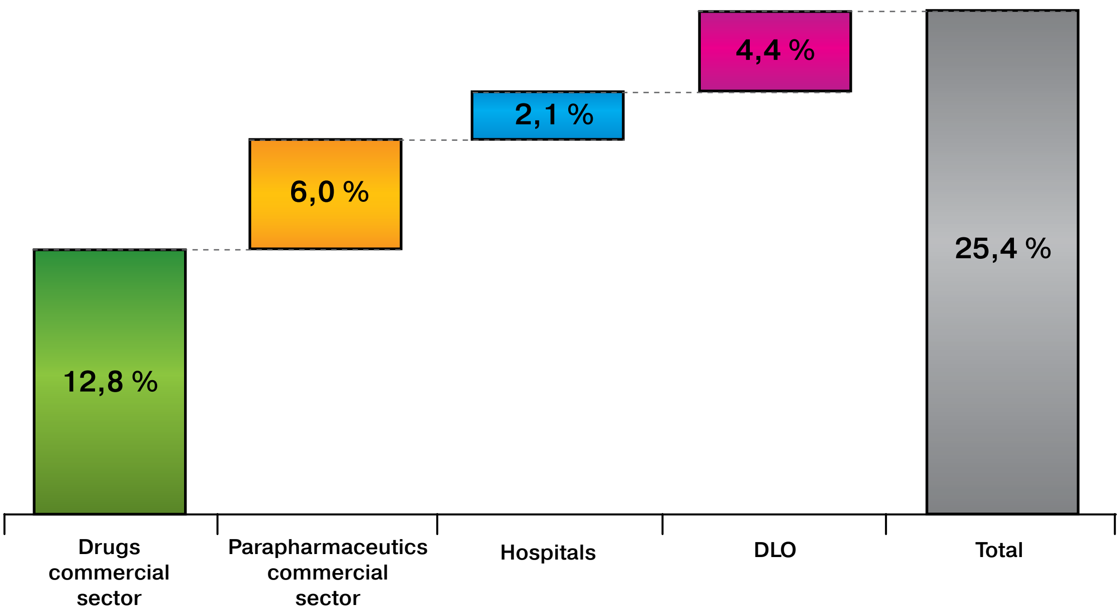
Source: DSM Group. **ISO 9001:2000**

Market capacity was 458 billion rubles (or 18.4 billion dollars) in the previous year, which is 25% higher than that in 2007.

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 2008



Source: DSM Group. ISO 9001:2000

Our forecasts in 2007 regarding growth of commercial market segment proved true. This very segment beat all thinkable records, and its increase amounted to 25% (this is comparable with market growth as a whole). Let us remind that in previous years the growth of drug consumption from own resources of population did not exceed 15% per annum. In 2008 the sales volume in commercial segment amounted to about 240 billion rubles (9.5 billion dollars).

In 2008 the parapharmaceutical segment achieved the phase of saturation. This can be inferred by small difference between the overall value of market growth and the individual value for this segment. In 2008 the parapharmaceuticals increased by 28% versus 25% of market growth as a whole, while earlier this difference was 10-15%. In 2009, we should not expect for new achievements in this segment; especially as, in the period of crisis, expenses of population for these very products will be subject to sequestering.

The State remains an active player on the pharmaceutical market. Restructuring of the DLO Program and sufficient funding of the system allowed to reverse the trend 2007 of reduction of the state funds on the drug market. The share of this segment in 2008 amounted to 26%.

Retail Audit
of the Russian Pharmaceutical Market

Quality management system meets ISO 9001:2000 requirements

Monthly monitoring of retail sales of pharmaceutical goods

Database renewal within 21 calendar days

8500 retail outlets and 105 regional units are in the database
Moscow and St.Petersburg data are given up to district detailed

Retail audit database lets you:

- To supervise operatively the market situation
- To analyze supply, demand and consumption of drugs
- To position brands and new drugs in consumption structure
- To merge the action of medical representatives
- To control advertising campaigns efficiency
- To correct distributors price-lists
- To estimate drug manufacturers contracts purchasing volume

Retail audit of the pharmaceutical markets of Ukraine and Moldova
Jointly with company "Business Credit"

Retail audit of the pharmaceutical market of Kazakhstan
Jointly with marketing research agency "Vi-ORTiS"

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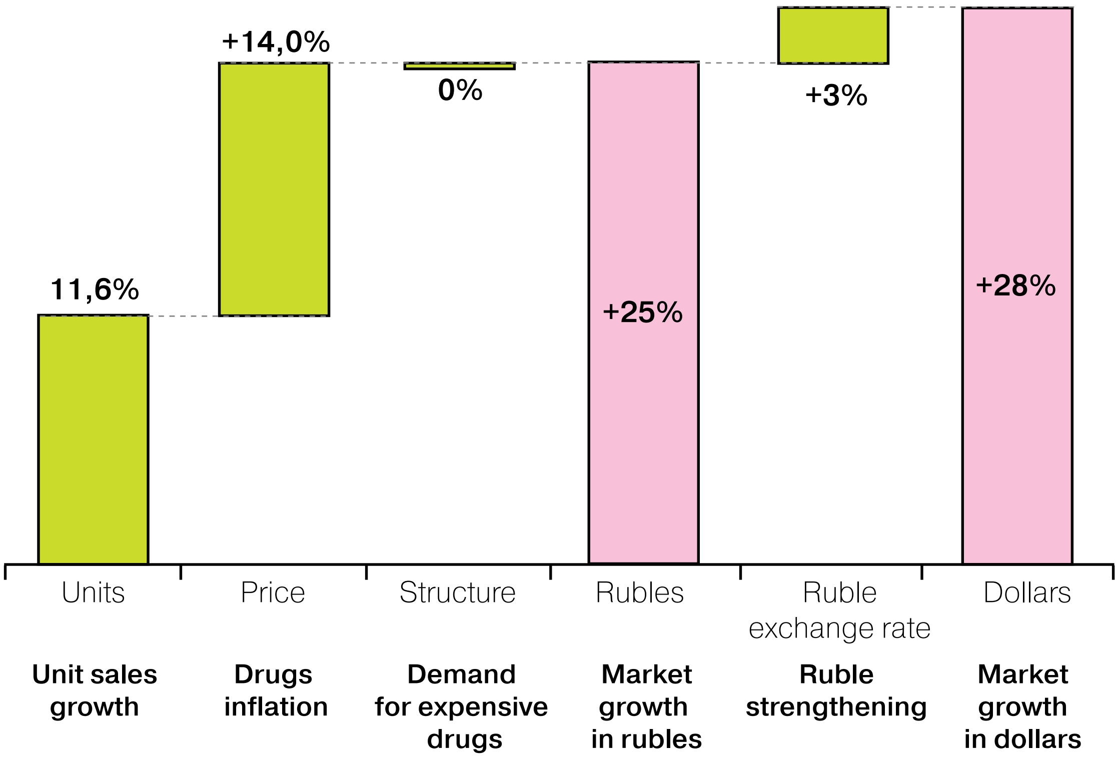
The capacity of the drugs commercial market in 2008 amounted to 236.7 billion rubles in end user prices or 179.3 billion rubles in pharmacy purchase prices[1] (see Diagram 5). In dollar terms these figures correspond to 9.5 billion dollars in end user prices and 7.2 billion dollars in pharmacy purchase prices. Compared to 2007, this segment increased by 28% in dollar terms, and by 25% in ruble terms.

In 2008, commercial market of drugs beat all the thinkable growth records. The trends of the previous years had changed: if earlier the market grew mostly due to change of drug sales structure in favor of more expensive drugs, in 2008 it grew due to market increase in real terms and significant jump in prices (see Diagram 4).

Diagram 4

Structure of drugs commercial market growth in 2008



Source: “Monthly retail audit of the pharmaceutical market in the Russian Federation”, DSM Group. **ISO 9001:2000**

Dollar inflation in 2008 does not make special contribution to the market growth. Exchange rate dynamics for the last months leveled all the growth that appeared in the first half of 2008. As a result, the difference between ruble and dollar growth is only 3%. In 2009, increase of market in terms of foreign currency (dollar and Euro) will be lower than the market growth in rubles.

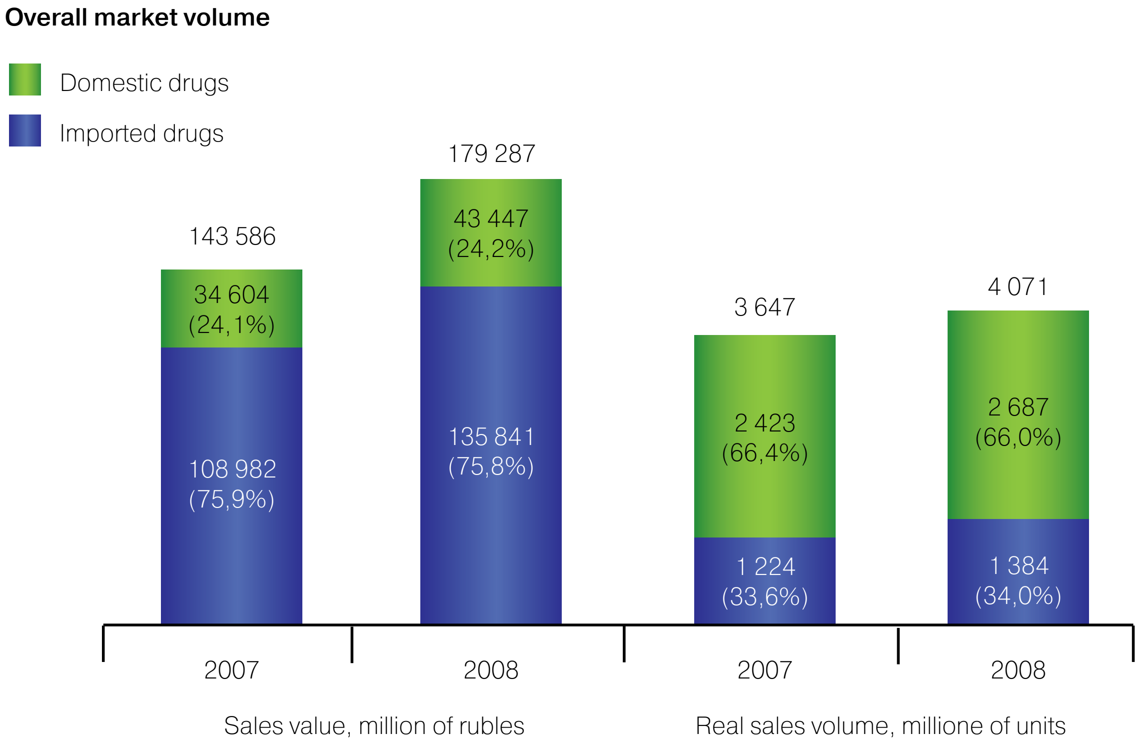
[1]Thereafter in “Drugs commercial segment” Section all volumes and prices are given in pharmacy purchasing prices with VAT included.

1. Proportion of imported and domestic drugs on commercial market

The structure of commercial drug market by sales volumes of domestic and imported drugs is shown in Diagram 5.

Diagram 5

Proportion of imported and domestic drug sales



Source: "Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in pharmacy purchase prices with VAT included.

The domestic drugs traditionally cover about one forth of the Russian commercial drug market in sales value. In 2008, the domestic drug share practically did not change and amounted to 24%. At the same time, the domestic drugs prevail in pharmacy sales in real terms - 66% in 2008.

In 2008, the average price of domestic drug unit amounted to 16.2 rubles; this price is more than 6-fold lower than that for imported drugs. In 2008, the average price of imported unit was 98.2 rubles.

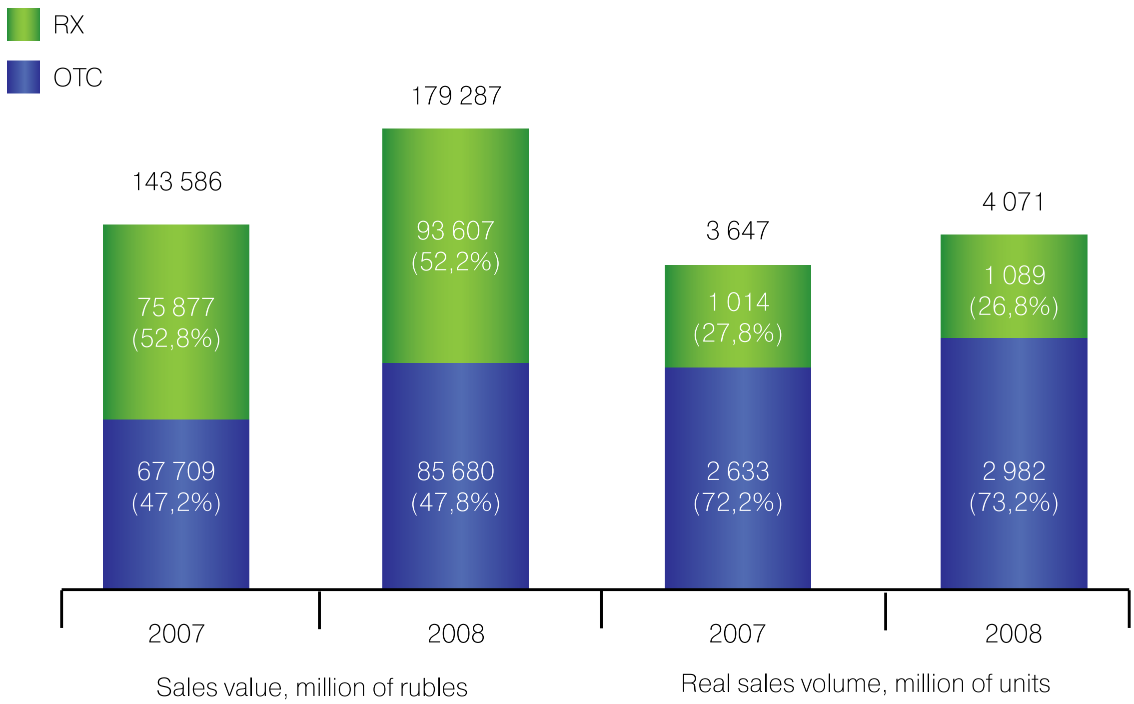
2. Proportion of Rx and OTC drugs on commercial market

Proportion of Rx and OTC drugs by pharmacy sales is shown in Diagram 6.

Diagram 6

Proportion of Rx and OTC drug sales

Overall market volume



Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation", DSM Group». **ISO 9001:2000**
Note: the sales volume shown is 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 sold without prescription was disregarded.

In Russia, the shares of both Rx and OTC drugs were growing up in pharmacy sales in 2008. The share of Rx drugs in Russia decreased by 0.6% in the total sales volume and amounted to 52.2%. OTC drug sales volume increased more than that of Rx drugs (27% versus 23%), and the share of this segment amounted to 47.8%.

OTC drugs are observed to prevail in Russia in real terms. In 2008, the share of OTC drugs increased by 1% and amounted to 73.2%. Consumption of this drug group (in packages) increased by 13%.

It should be noted that the average price of Rx drug unit amounted to 85.94 rubles in 2008. (growth +12% compared to 2007) and that for OTC drugs was 3-fold lower and amounted to 28.73 rubles (growth +15% compared to 2007).

3. Sales structure by ATC groups on commercial market

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

Table 1

Sales structure by ATC groups on commercial market

First level ATC groups	Sales value, mln of rubles	Group share in sales value, %	Real sales volume, mln units	Group share in sales value, %
A: Alimentary tract and metabolism	32 503	18,1	783	19,2
N: Nervous system drugs	23 619	13,2	836	20,5
C: Cardiovascular system drugs	22 406	12,5	341	8,4
R: Respiratory system drugs	21 107	11,8	562	13,8
J: Antibacterials for systemic use	13 755	7,7	219	5,4
G: Genitourinary system drugs and sex hormones	12 632	7,1	62	1,5
M: Musculoskeletal system drugs	12 562	7,0	239	5,9
D: Dermatologicals	9 672	5,4	438	10,8
[~] Without allocation	8 995	5,0	269	6,6
L: Antineoplastic and immunomodulating agents	8 489	4,7	44	1,1
B: Agents affecting blood and blood forming organs	5 460	3,1	87	2,1
S: Agents affecting sensory organs	4 338	2,4	122	3,0
H: Systemic hormonal preparations (excluding sex hormones)	1 475	0,8	14	0,4
V: Various	1 318	0,7	29	0,7
P: Antiparasitic products, insecticides and repellents	959	0,5	26	0,6

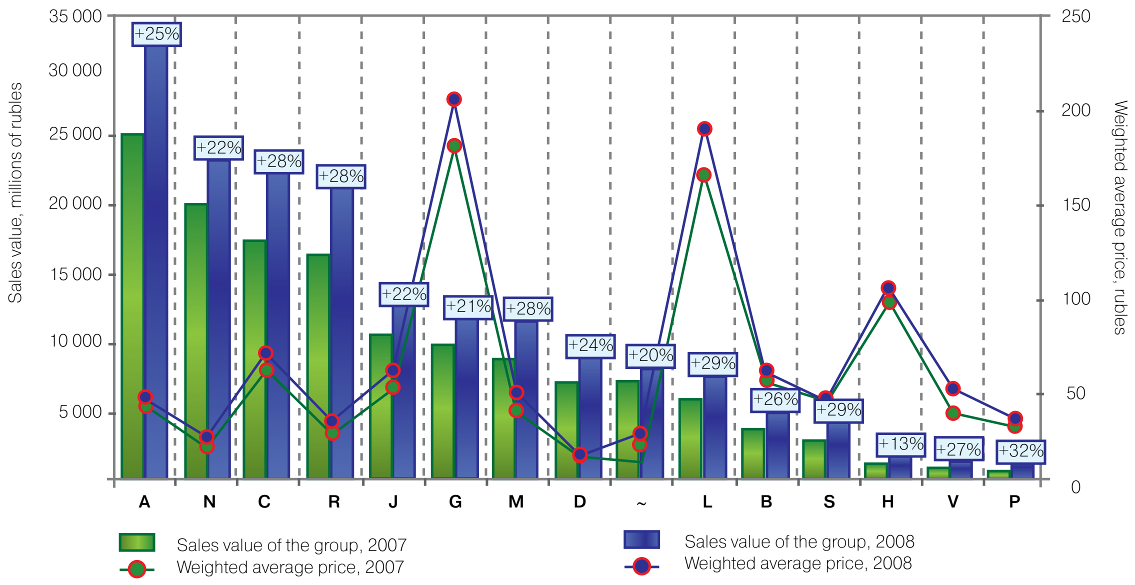
Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation», DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in pharmacy purchase prices with VAT included
Note: [~] drugs without allocation (homeopathic preparations, plant and animal drugs, substances etc.)

In 2008, the group [A] "Alimentary tract and metabolism" was the leader by sales value (18.1%). Group sales value increased by 25% compared to 2007. This group includes many well-known and popular brands, which can be purchased in a pharmacy without visiting a specialist for consultancy - VITRUM (leader of sales value ranking for vitamin and mineral complexes), COMPLIVIT, LINEX (best-selling drug for dysbacteriosis) etc.

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. However, the gap between these groups reduced from 1.2% to 0.7%. In group [N], the biggest sales volume has OTC analgesic PENTALGIN, in group [C] the leader is widely known brand for treatment of blood hypertension, ENAP.

Diagram 7

Structure of commercial drug market in 2007-2008



Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**
Note: the sales volume shown is 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 7.

The biggest sales growth in value is for group [P] "Antiparasitic products, insecticides and repellents" – 32%, mainly due to successful sales of drug for scabies, SPREGAL (share of group sales – 13%, growth – 23%), pediculosis cream NIX (share – 9.2%, growth – 45%), antihelminthic agent VERMOX (share – 8.7%, growth – 31%). However, in spite of the biggest sales growth, this group has only non-significant influence on the total market volume because its share is less than 1%.

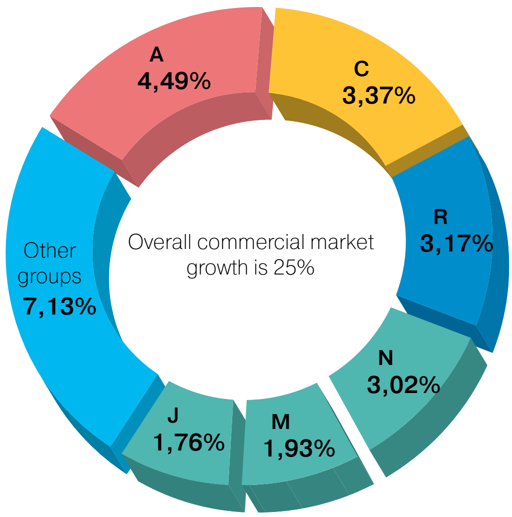
Group [H] "Systemic hormonal preparations (excluding sex hormones)" has the lowest growth among all ATC groups. The composition of this group is rather stable – only two new drugs appeared in 2008 – drug for osteoporosis, ALOSTIN, and PRESINEX intended for reduction of diuresis in diabetes insipidus, nocturnal enuresis etc. The leader of the group is IODOMARIN (group share – 27%, growth compared to 2007 – 13%) intended for replenishment of iodine deficiency.

The highest price of weighted average unit is seen for groups [G] and [L] – 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 8).

Diagram 8

Weighted growth of ATC-groups



Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**

In 2008, the drugs of the groups [A] "Alimentary tract and metabolism", [C] "Cardiovascular system drugs" and [R] "Respiratory system drugs" made the largest contribution to the increase of the value capacity of the commercial drug market.

4. Manufacturers on the commercial market

Table 2 shows TOP-20 manufacturing companies leading by the sales volume on Russian commercial market in 2008.

Table 2

TOP-20 drug manufacturing companies by sales volume on Russian commercial market in 2008

2008 ranking	Change	Manufacturer	Sales value, mln of rubles 2008	Sales value increase, %	Share, %
1	+1	PHARMSTANDARD	8 025	39	4,5
2	-1	SANOFI-AVENTIS	7 173	16	4,0
3	-	BERLIN-CHEMIE /A.MENARINI/	6 514	25	3,6
4	-	NYCOMED	5 676	35	3,2
5	+1	NOVARTIS	5 553	36	2,9
6	-1	GEDEON RICHTER	5 496	31	3,0
7	-	PFIZER	4 628	20	2,6
8	+1	SERVIER	4 625	29	2,6
9	-1	LEK D.D.	4 594	26	2,6
10	-	BAYER SCHERING PHARMA	3 945	27	2,2
11	-	KRKA	3 929	31	2,2
12	-	SOLVAY PHARMACEUTICALS	3 316	20	1,8
13	-	GLAXOSMITHKLINE	3 260	24	1,8
14	-	BOEHRINGER INGELHEIM	3 115	39	1,7
15	-	VALENTA	2 551	25	1,4
16	-	DR.REDDY'S LABORATORIES	2 345	20	1,3
17	+2	ASTELLAS PHARMA	2 334	24	1,3
18	-1	F.HOFFMANN-LA ROCHE	2 296	18	1,3
19	-1	EGIS	2 240	18	1,2
20	-	SCHERING-PLOUGH	2 229	19	1,2

Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in pharmacy purchase prices with VAT included.

In 2008, the drugs produced by 1042 manufacturers (imported drugs - 534 companies, domestic drugs - 508 companies) were presented in Russian pharmacies.

In 2008, TOP-20 companies cover 47% of commercial segment of drugs. At the same time their cumulative volume increased by 26% that is slightly higher than market growth. In previous years TOP was growing much faster.

In 2008, the change of the leader took place – PHARMSTANDARD occupied the first line with 10% gap from SANOFI-AVENTIS, the leader of previous years. For the first time domestic manufacturer achieved such a result. PHARMSTANDARD has a drug portfolio allowing to increase company sales. First of all, such situation is ensured by ARBIDOL brand occupying about 30% of company turnover in commercial segment. This brand is followed by PENTALGIN and TERPINCOD. These three brands in total ensure 55% of company sales.
OTECHESTVENNYE LEKARSTVA is another Russian manufacturer presented in TOP-20 list that changed its name to VALENTA in 2008.

It should be noted that high growth rate is demonstrated by BOEHRINGER INGELHEIM – about 40%. MOVALIS, leading brand of this company, became member of TOP-20 by sales value.

Minimum growth among TOP-20 was demonstrated by SANOFI-AVENTIS which occupied the second place – 16%.

5. Drugs on the commercial market

Table 3 shows TOP-20 drug brands leading by the sales volume on Russian commercial market in 2008.

Table 3

TOP-20 drug brands by sales volume in value terms on Russian commercial market in 2008

2008 ranking	Change	Manufacturer	Sales value, mln of rubles 2008	Sales value increase, %	Share, %
1	-	ARBIDOL	2 326	49	1,3
2	+1	ACTOVEGIN	1 533	25	0,9
3	-1	VIAGRA	1 501	20	0,8
4	+2	ESSENTIALE	1 472	43	0,8
5	-1	LINEX	1 381	30	0,8
6	-1	TERAFLU	1 236	20	0,7
7	+3	PENTALGIN	1 235	32	0,7
8	+1	ENAP	1 193	27	0,7
9	-1	VITRUM	1 128	18	0,6
10	+14	OSCILLOCOCCINUM	1 097	71	0,6
11	+6	CONCOR	1 092	53	0,6
12	-5	MEZYM FORTE	1 092	13	0,6
13	+1	NUROFEN	1 080	41	0,6
14	-3	NO-SPA	984	15	0,5
15	+3	MILDRONATE	975	40	0,5
16	-3	PREDUCTAL	970	24	0,5
17	-5	MEXIDOL	968	18	0,5
18	+8	MOVALIS	955	51	0,5
19	-4	ANAFERON	935	28	0,5
20	-1	COLDREX	885	28	0,5

Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in pharmacy purchase prices with VAT included.

In total, TOP-20 leading brands cover 13% of sales value of the commercial segment.

ARBIDOL is undisputed leader in 2008. At that, this drug is one with the maximal growth among TOP-20.

VIAGRA, leader of the previous years, moved to the third position surrendering its place to ACTOVEGIN in 2008. In addition, the drugs occupying the 4th and the 5th places are close to VIAGRA in terms of sales. Until recently, this drug did not have any competitors among medicinal products. Appearance of LEVITRA and CIALIS on the pharmacy shelves slightly weakened its position. Although the sales volumes of competitor drugs are much lower than that of VIAGRA, the sales volume growth of these drugs is higher (about 24%).

It will be small wander that this drug will not be a member even of five best-selling drugs next year.

OSCILLOCOCCINUM can be called the breakthrough of the year. It moved 14 positions upwards at once and occupied the 10th place in brand ranking in the commercial segment. An active advertising campaign in mass media including television resulted in good demand for this drug.

Another "popular" brand CRATAEGUS, which earlier was constantly among leaders, was not even in TOP-50 in 2008. As a result its sales decreased by 30%, and it has the 72nd ranking position. This all is related to the changes in sale rules for the alcohol-containing products.

6. Segments by price on the commercial market

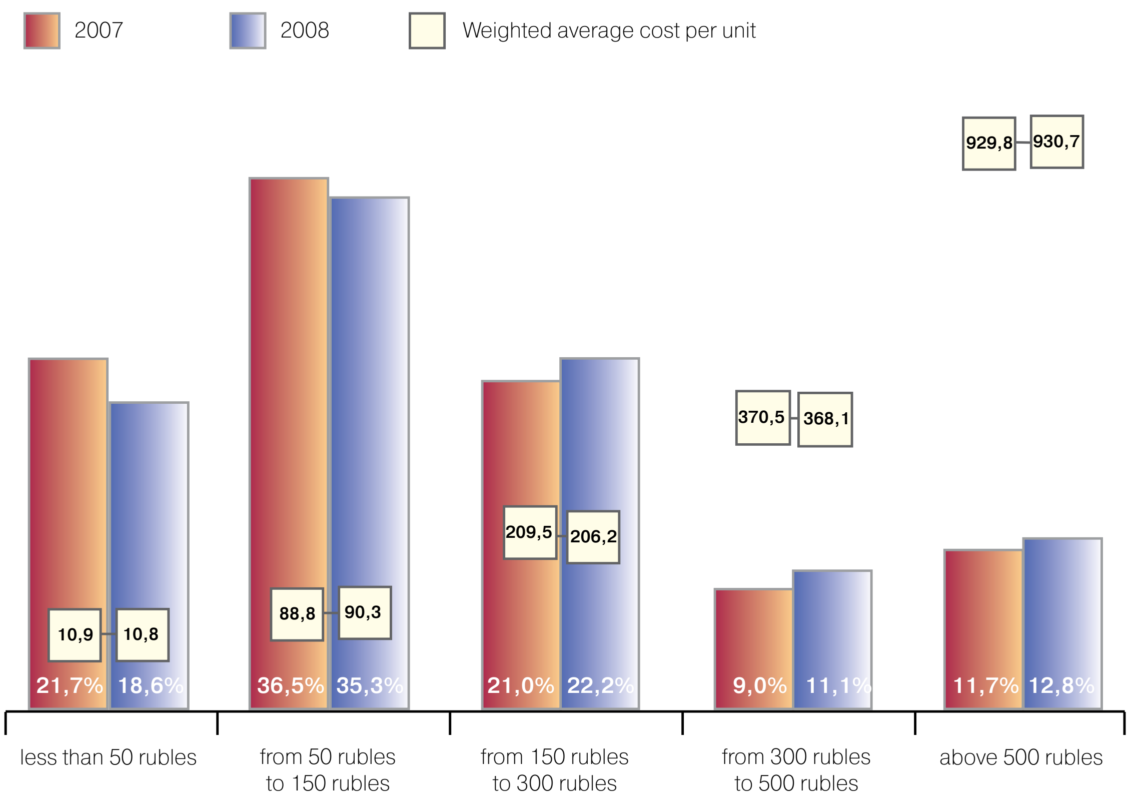
In 2008, an average cost of drug unit on the commercial market increased by 12% and amounted to 44.04 rubles.

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 2007-2008 are presented in Diagram 9.

Diagram 9

The structure of commercial drug market by price categories



Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in pharmacy purchase prices with VAT included.

The tendency to switch to higher-priced drugs is maintained in 2008. While in 2006 the drugs with unit price less than 50 rubles occupied the quarter of market, in 2007 – 21.7%, in 2008 their share decreased by additional 3%, consequently this segment covers less than 19%. In spite of that, this segment has still the greatest capacity in real terms – 76% (in 2006 – 78%). The group of drugs priced from 50 to 150 rubles also decreased in 2008. Other groups increased by sales value. The maximal increase of share by 2% was observed in the group of drugs priced from 300 to 500 rubles.

It is of interest to note that average cost per unit for every segment changed only slightly. Therefore, the overall change in average unit price on the market took place due to increase in consumption of expensive drugs. Thus, the changes in drug consumption structure remain the important factor of commercial drug segment growth.

7. Price index on the commercial market

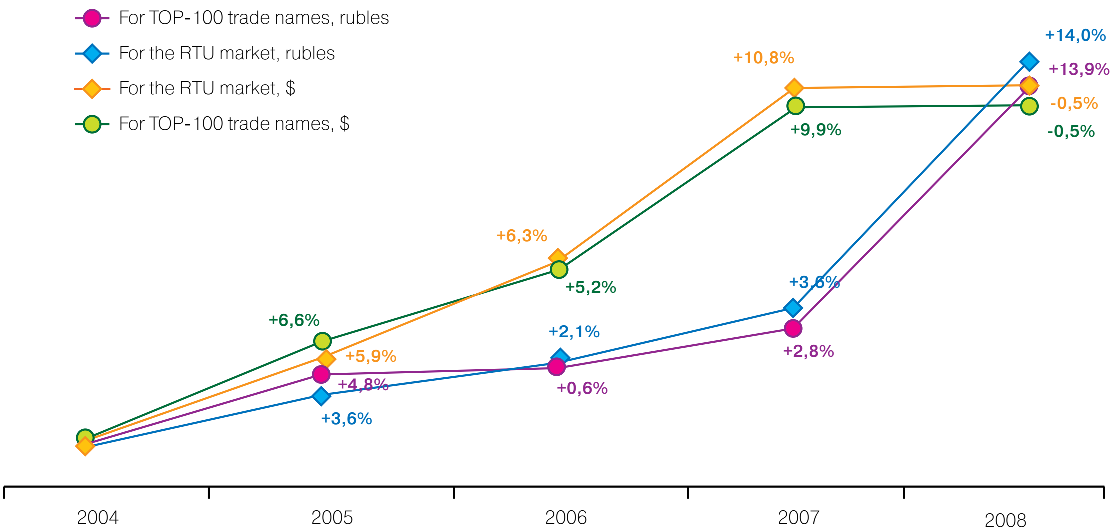
To make an objective estimate of drug price change on the commercial market, price index based upon a fixed list of ready-to-use drugs was considered[2].

In 2008, price index for drugs amounted to 14.0% compared to 2007. No such price growth was observed in the last years. For information: In 2006, inflation of drugs amounted to 2.1%, in 2007 it amounted to 3.6%. The world crisis was responsible for increased inflation, which affected the Russian market as well. Substantial growth was observed in the last quarter of 2008, when ruble started to weaken noticeably versus foreign currencies – dollar and Euro. Only for the last 3 months of 2008 the drug inflation amounted to more than 7%.

The price rise of the most popular drugs on the market was the same: in 2008 the price index of the TOP-100 brands amounted to 13.95%.

Diagram 10

Change in prices of drugs on the Russian commercial market in 2005-2008



Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**

It should be noted that while in July dollar inflation amounted to more than 11%, ruble weakening during the next months resulted in the fact that the prices in dollar were not practically changed according to annual results.

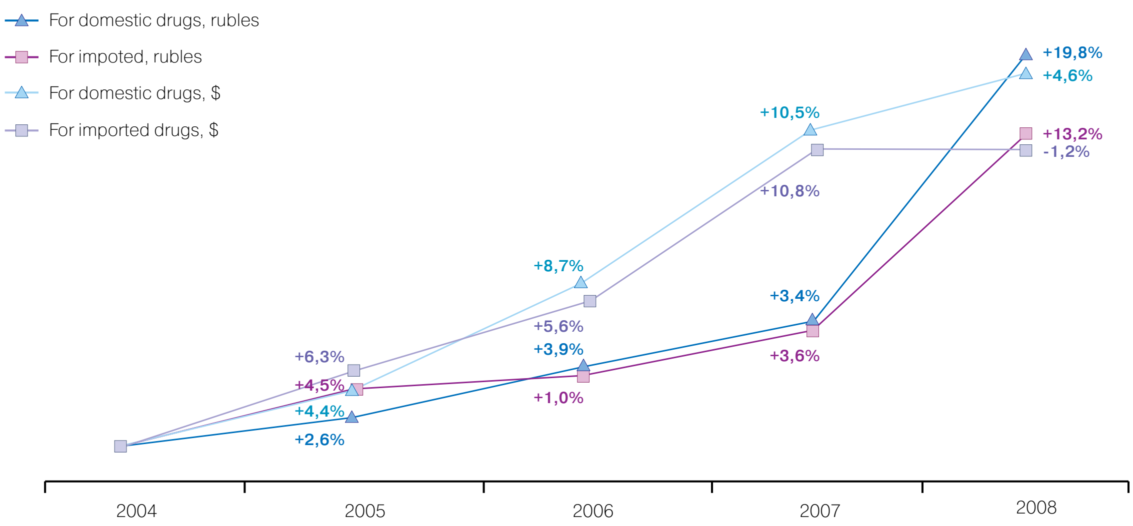
In 2008, the changes in prices for domestic and imported drugs were significantly different. The value of these parameters amounted to 19.8% and 13.2%, respectively. The imported drugs had less intensive growth than other drugs in the whole. However, logically it should be vise versa: imported drugs shall have more intensive growth, as the difference in rates leads to bigger exchange losses. In this case, the delay in sales of these products has its impact, i.e. during the last months the drugs being sold were delivered at the end of summer - beginning of autumn. Nevertheless, the domestic manufacturers promptly responded to the situation: while till October the prices for domestic drugs were increasing slower than that for imported drugs, in November the 10% price rise for domestic products took place.

[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 for the period of 2005-2008 is shown in Diagram 11.

Diagram 11

Price index for drugs of domestic and foreign manufacturers on the Russian commercial market in 2005-2008



Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**

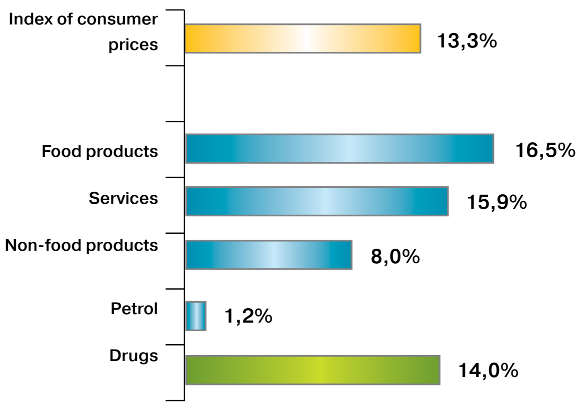
According to Goskomstat data drugs cover 1.56% of the base structure of consumption expenditure of Russian population.

Diagram 14 shows the overall consumer price index and price indices for various categories of goods and services.

In 2008, the overall consumer price index amounted to 13.3% with the highest price rise observed in the food segment (16.5%) and services (15.9%). Among the non-food products for the first time the petrol had one of the lowest price indices (1.2%). In 2008, the price growth for pharmaceuticals was comparable to the general inflation in the country.

Diagram 12

The index of consumer prices in Russia (December 2008 compared to December 2007)



Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000,** the State Statistics Committee

Thus, it can be said that pharmaceuticals became significantly more expensive for consumer in 2008. This is caused by the crisis, and in 2009 the situation will only get worse.

8. New drugs

The range of pharmaceuticals in the Russian pharmacies is wide enough. Many drugs (e.g., MEZYM FORTE, ESSENTIALE, CAVINTON, VIAGRA etc.) have the right to be called “old residents” of the Russian market. Nevertheless, the new drugs appear in the pharmacies every year. Mainly they are generic drugs with the new trade names; however, there are absolutely new original drugs as well. Only the new drugs are referred which were manufactured under the new trade name.

In 2008, about 210 new drug trade names appeared in the Russian pharmacies, which is slightly lower than that in 2007 (approximately 230 trade names). The majority of new drugs is of foreign origin (117 trade positions). The new imported drugs are leaders by sales volume as well; their share is more than 65%, while Russian drugs are leaders by the number of units sold – 74%.

Total sales volume of new drugs amounted to 558 million rubles (which is only 13% higher than that in 2007) and 6.9 million units, which amounts to 0.31% and 0.17% of sales value and real sales volume, respectively, for all drugs in the commercial segment of drugs. The weighted average cost per unit of the new drug amounted to about 80 rubles, while weighted average cost per new imported drug is about 200 rubles, which is more than 5-fold of the Russian drug cost (about 34 rubles).

PRESTARIUM A manufactured by SERVIER became the sales leader among the new trade names; it differs from already well-known PRESTARIUM by new dosages of 2.5 mg, 5 mg, and 10 mg (PRESTARIUM is supplied in 2 mg, 4 mg, and 8 mg dosages). The share of PRESTARIUM A covered above 18% of sales of all new drugs. This drug increased its monthly turnover more than 430-fold in only 4 months of sales!

The second place with significant gap is occupied by antifungal agent LAMISIL UNO (NOVARTIS), which became an addition in popular LAMISIL brand. The sales volume of LAMISIL UNO amounted to more than 530 thousand rubles as early as in the first month of its appearance in Russian pharmacies (May 2008). In summer months when fungal diseases of the feet (main indication for this drug) are most common, monthly sales volume increased almost 30-fold. Active advertising support and convenience (mostly single application) facilitates good demand for this drug.

Table 4

TOP-20 new trade names in 2008 on the commercial market of the Russian Federation

No	Trade name	Manufacturer	Volume, mln. ruble	Registration date, 2008
1	PRESTARIUM A	SERVIER	104,5	September
2	LAMISIL UNO	NOVARTIS	68,2	May
3	PENTALGIN PLUS	PHARMSTANDARD	48,4	March
4	IMUNORIX	DOPPEL FARMACEUTI	36.9	April
5	HERBOTON	HIPPOCRAT	24,7	September
6	COMBILIPEN	PHARMSTANDARD	12,0	March
7	ALFA NORMIX	CSL	14,8	April
8	COLDREX JUNIOR HOT DRINK	GLAXOSMITHKLINE	14,1	August
9	COMPLIVIT OPHTALMO	PHARMSTANDARD	12,0	March
10	HEXORAL TABS	SOLDAN HOLDING+ BONBONSPEZIALITATEN	11,5	August
11	LORISTA	KRKA	11,1	June
12	GANATON	ABBOT GMBH & CO.KG	10,0	January
13	INFLUNORM	PHARMSTANDARD	9,5	July
14	BRONCHICUM C	SANOFI-AVENTIS	9,3	May
15	EXFORGE	NOVARTIS	9,2	February
16	SUPRIMA-NOS	SHREYA CORPORATION	8,6	February
17	ASEPTOLIN	FARMATSEVTICHESKIY KOMBINAT	8,3	August
18	JOSET	UNIQUE PHARMACEUTICAL LABORATORIES	6,7	January
19	TENOTEN DETSKIY	MATERIA MEDICA	5,8	May
20	ANTEGRIPPIN-ORVI	VALENTA	5,5	August

Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in pharmacy purchase prices with VAT included.

Domestic drug PENTALGIN PLUS (PHARMSTANDARD) took the third position in the ranking of new trade names. in addition to PENTALGIN PLUS, 3 drugs of this company entered the ranking: multivitamin drugs COMBILIPEN and COMPLIVIT OPHTALMO, and INFLUNORM, a drug for relief of cold and influenza symptoms as well. PHARMSTANDARD is on the second place among all new drug manufacturers with about 2% gap behind SERVIER. However, it is the confident leader among domestic companies (the share of PHARMSTANDARD is more than 50%).

Table 5

TOP-20 manufacturers of the new trade names in 2008 on the commercial market of the Russian Federation

No	Manufactirer	Volume, mln. rubles	Number of the new trade names	Leader of the manufacterer's new drugs
1	SERVIER	107,2	4	PRESTARIUM A
2	PHARMSTANDARD	98,7	9	PENTALGIN PLUS
3	NOVARTIS	78,1	4	LAMISIL UNO
4	DOPPEL FARMACEUTICI	36,9	1	IMUNORIX
5	HIPPOCRAT	24,9	2	HERBOTON
6	GLAXOSMITHKLINE	18,1	5	COLDREX JUNIOR HOT DRINK
7	CSC	15,3	3	ALFA NORMIX
8	FARMATSEVTICHESKIY KOMBINAT	11,6	2	ASEPTOLIN
9	SOLDAN HOLDING+ BONBONSPEZIALITATEN	11,5	1	HEXORAL TABS
10	KRKA	11,2	8	LORISTA
11	SHREYA CORPORATION	9,5	2	RINICOLD HOTMIX
12	SANOFI-AVENTIS	9,3	1	BRONCHICUM C
13	UNIPHARM	8,6	3	ARTRA CHONDROITIN
14	NIZHPARM	6,9	5	BENATEX
15	UNIQUE PHARMACEUTICAL LABORATORIES	6,7	1	JOCET
16	VALENTA	6,6	4	ANTEGRIPPIN-ORVI
17	MATERIA MEDICA	5,8	1	TENOTEN DETSKIY
18	GLENMARK PHARMACEUTICALS	5,5	4	KLENZIT-C
19	VEROPHARM	4,6	9	GYNECOTEX
20	RANBAXY LABORATORIES	4,6	2	PYLOBACT AM

Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**
Note: **the sales volume shown is in pharmacy purchase prices with VAT included.**

The ranking includes 7 domestic companies. All of them are among leading Russian manufacturers; that is why they are capable to introduce new drugs and extend their own portfolio.

It should be noted that we can expect boom of new generics over the next few years, when patent protection for original drugs will start to expire.

9. ESSENTIAL DRUGS

We have never written before about essential drugs in our annual overviews. There was no special interest whether the drugs were in the list or not. What is the reason? The issue of price regulation in the drug market has been actively discussed recently. Moreover, essential drugs are the very drugs which price was subject to such regulation with varied success. However, the issue of maximum charge value is still managed by the regional authorities. Charge limit range is really impressive, from 15% to 100%, and is influenced by several factors. It is logical in conditions of large distances and various climates, even the Soviet Union had three price zones.

The separation between essential drugs and other drugs is in a way incorrect itself. Because the very idea of medicinal agent implies that a drug allows a human to cure from a disease, i.e. to survive or extend life. Of course, we do not take multivitamins and hematogen into account. Although, during review of the last list we found MULTIVITAMINS+MULTIMINERALS (film-coated tablets) in the list of essential drugs as well as ARBIDOL and BACTISUBTIL and other positions, previously not included in the list. Under this logic all drugs should receive the status of essential drugs or the very concept of essential drugs should be abolished. It is difficult to judge why multivitamins were included in the list of essential drugs; probably this is an attempt of manufacturers to limit prices for this group of drugs in retail network.

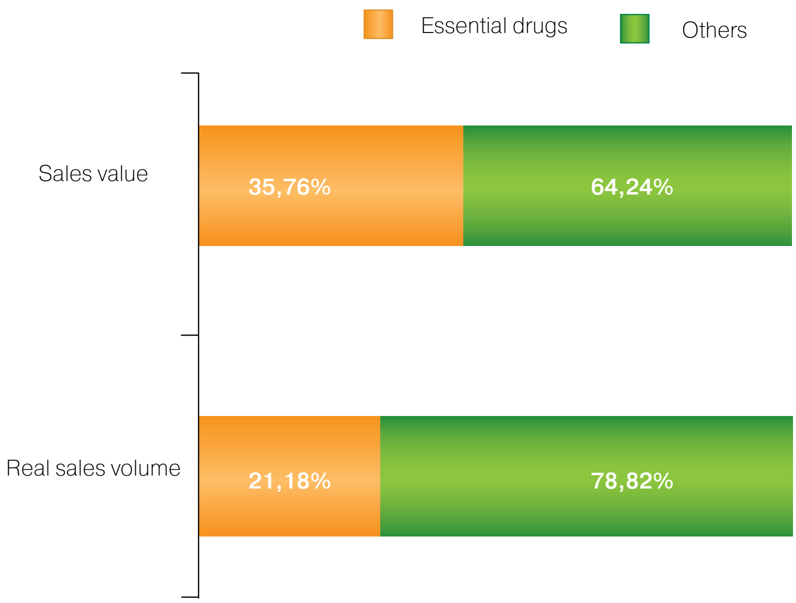
The issue of prices is very actual but in the course of political dispute hardly anybody remembered the effective Government's Decree No. 239 dated March 07, 1995 and amended Decree No.769 of the Government of the Russian Federation "On measures to arrange state price regulation" dated December 12, 2004. The list of goods, being subject to the state price regulation performed by executive agencies of the constituent entities of the Russian Federation, include: "Trade markups to prices for medicinal products and medical devices, except for trade markups to prices for medicinal products designated for particular categories of citizens having the right for state social aid in the form of set of social services". And it is known that maximum charge for all drugs exists in many regions.

Therefore worrying about price regulation is "a bit" out of date. Those constituent entities, which wanted to regulate prices, have been doing this for a long time. And the issue is not about new decrees and laws; it is about the wish to do something on this matter.

How the group of essential drugs looks like at the moment?

Diagram 13

Commercial segment structure in the essential drugs list



Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**

In 2008, the share of drugs belonging to the group of essential drugs amounted to 36% in value terms and to 21% in real terms. The third of the market in money terms accounts for essential drugs! The drugs in this group included about 3700 trade names, which corresponds to about 30% of all positions sold in 2008.

The ranking of brands in the list of essential drugs is given below.

Table 6

TOP-10 brands in the list of essential drugs list on the commercial market of the Russian Federation in 2008

No	Trade name	Volume, mln rubles
1	ARBIDOL	1 548
2	PREDUCTAL MB	965
3	NO-SPA	946
4	MEXIDOL	942
5	MILDRONATE	929
6	CONCOR	871
7	DIROTON	854
8	SUMAMED	808
9	MILGAMMA	784
10	ENAP	726

Source: «Monthly retail audit of the pharmaceutical market in the Russian Federation» DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in pharmacy purchase prices with VAT included.

Drug Reimbursement Program (DLO) started in 2005 in the framework of the National Project “Health”.

In the middle of 2007, the decision was made about modernization of the program, which basis is delegation of powers on organization of drug supply, procurement and, respectively, financing to the constituent entities of the Russian Federation.

As a result, in 2008 drug reimbursement for special public categories was conventionally divided into two components:

1. Federal procurement performed on the federal level by Roszdrav (further this power was delegated to the Ministry of Health and Social Development of the Russian Federation) in order to supply essential drugs to patients with diseases requiring expensive treatment – 7 nosologies, such as: hemophilia, cystic fibrosis, hypophysial nanism, Gaucher’s disease, myeloleukemia, multiple sclerosis, as well as the state after transplantation of organs and (or) tissues;
2. Regional procurement is procurement performed directly by the constituent entities of the Russian Federation in order to reimburse the special public categories.

Some operational principles of this program have changed:

1. In 2008, prices for supplied drugs were determined according to the results of auctions (before, the prices were clearly regulated and declared by the decrees of the Government of the Russian Federation).
2. Drug purchase is also performed in auction. At the same time, while for 7 nosologies single auction is held on the federal level all over Russia, each constituent entity of the Russian Federation holds its own independent tender regarding remainder of the drug list. As a result, the number of distributors participating in the DLO Program increased in several times.
3. Financial funds intended for “ordinary” drug list are transferred to the budgets of constituent entities of the Russian Federation, which allocate these funds.

One of the negative trends of the DLO program is reduction of people entitled to receive beneficiary drugs. In 2008, the number of beneficiaries was 5.6 mln, which is 27% lower than that in 2007.

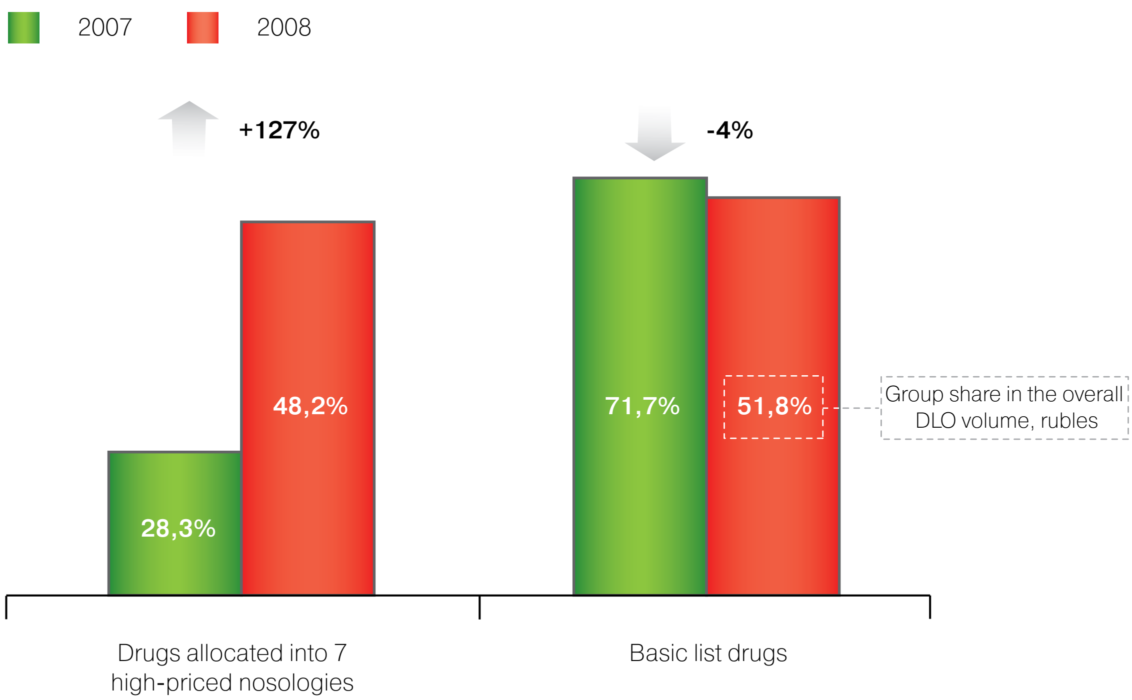
At the same time, the change of the program principles allowed to increase the provided funding significantly. This was mainly due to separate funding of drugs for treatment of 7 high-priced nosologies. A total of about 73 billion rubles was allocated to the DLO program in 2008; 33 billion rubles out of these funds were planned to be spent on “high-priced” diseases.

According to the monitoring data provided by healthcare authorities of the constituent entities of the Russian Federation in 2008, medicinal products for the total amount of 66.2 billion rubles were supplied to regions (32% higher compared to that in the same period of 2007), including 31.8 billion rubles for treatment of high-priced nosologies.

It should be noted that while the supply of drugs included to the 2008 list of high-priced nosologies increased 2.3-fold, the supply of remaining drug list decreased by 4%.

Diagram 14

Proportion in the DLO program by different lists



Source: DSM Group. **ISO 9001:2000**

62.8 million prescriptions were written out, which is 30% lower than that in 2007 (taking into account decrease in the number of beneficiaries). Sixty one (61.0) million prescriptions were serviced for 57.3 billion rubles (15% higher than that in 2007). These include 355.6 thousand prescriptions written out for treatment of high-priced nosologies; the cost of drugs dispensed by pharmacies according to 353.5 thousand prescriptions amounted to 27.9 billion rubles.

In 2008, DLO share on the pharmaceutical market amounted to 14.5%.

The trend of Drug Reimbursement Program is increase in average cost per unit. In 2005, the average cost per unit amounted to 155 rubles, in 2006 it increased 2-fold and amounted to 330 rubles, in 2007 it amounted to 416 rubles. The year 2008 was not an exception: the average price of drug unit increased up to 483 rubles, which is 16% higher than that in 2007. It should be noted that drug consumption in real terms under the DLO program increased by 15%, which was not observed for the last two years: about 138 million drug units were sold.

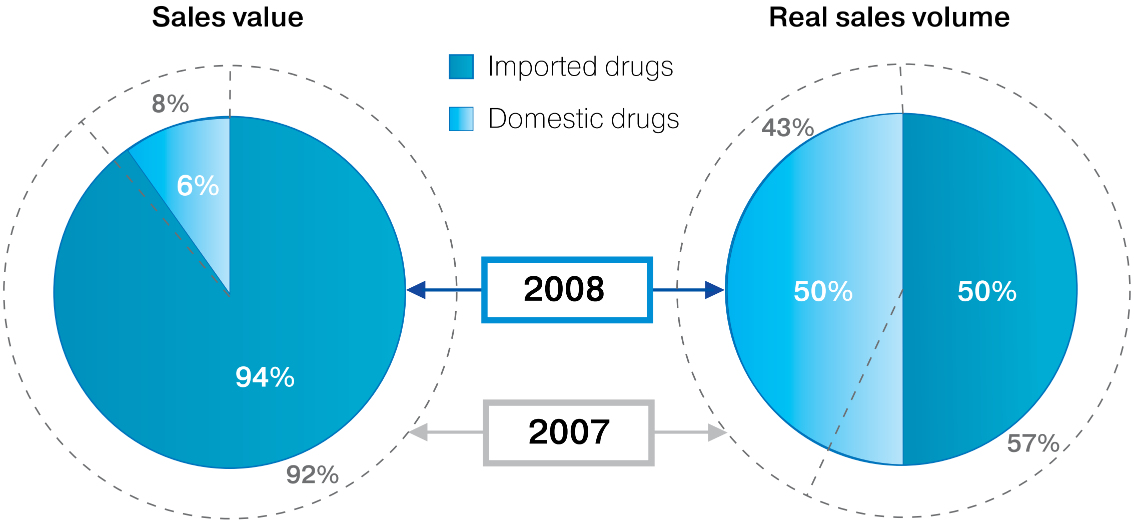
1. Proportion of imported and domestic drugs within DLO Program

The DLO program includes mainly "imported drugs" while the domestic production takes only modest place in the volume of the reimbursed drugs. And the share of imported drugs increases from year to year.

In 2008, the proportion is shifted towards increased share of the imported drugs: the share of imported drugs is 94%, and the share of domestic drugs is 6%.

Diagram 15

Proportion of imported and domestic drug sales

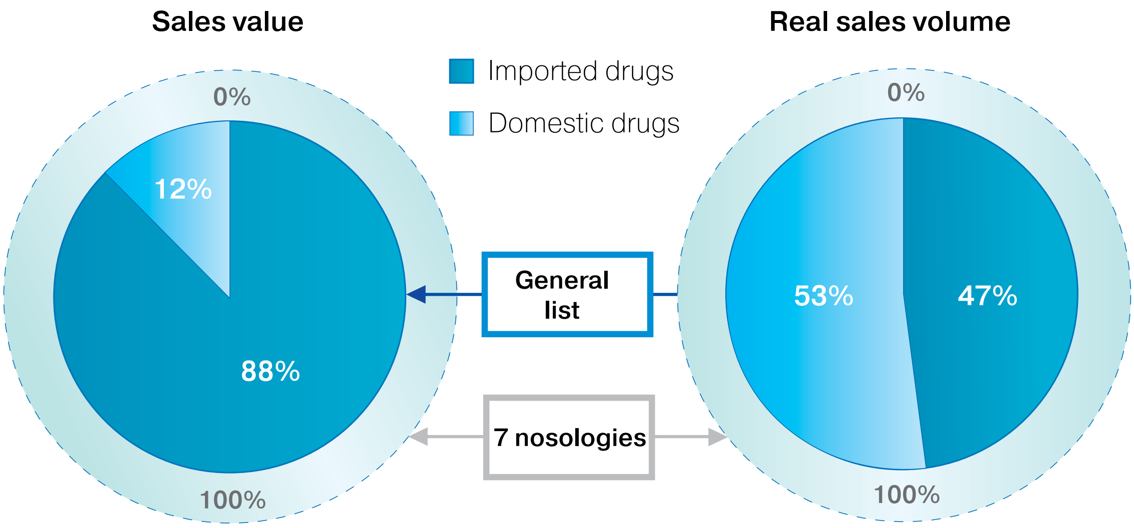


Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

It should be noted that the share of the domestic drugs in real terms is increasing from year to year. In 2007, it amounted to 43%, and in 2008 it amounted to 50%. In general, this is an unusual situation for the market when the imported goods dominate in real terms. This situation developed due to beneficiaries' demand of the high-priced drugs, most of which are the imported drugs.

Diagram 16

Proportion of imported and domestic drug sales by different lists



Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

In the share of DLO program corresponding to 7 high-priced diseases, domestic drugs account for less than 1% of sales value, while in the remainder of the list this share amounts to about 12% in terms of money, and about 53% in terms of units.

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 2008, the share of Rx drugs in the DLO program sales value in Russia increased by 2% and amounted to 98%.

Rx drug share by sales volume is 79%.

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

Proportion of the 1st level ATC groups by pharmacy sales within the DLO program in 2008 in Russia is shown in Table 6.

Table 7

Drug sales structure by ATC groups on the DLO market

First level ATC groups	Sales value, mln of rubles	Group share in sales value, %	Real sales volume, mln units	Group share in sales value, %
L: Antineoplastic and immunomodulating agents	26 109	39,2	2,0	1,5
B: Agents affecting blood and blood forming organs	12 387	18,6	10,7	7,7
A: Alimentary tract and metabolism	9 740	14,6	20,9	15,2
C: Cardiovascular system drugs	4 941	7,4	49,2	35,7
N: Nervous system drugs	4 176	6,3	33,5	24,3
R: Respiratory system drugs	3 465	5,2	6,9	5,0
H: Systemic hormonal preparations (excluding sex hormones)	2 049	3,1	1,5	1,1
M: Musculoskeletal system drugs	1 488	2,2	6,4	4,6
J: Antibacterials for systemic use	876	1,3	2,1	1,5
G: Genitourinary system drugs and sex hormones	528	0,8	0,7	0,5
S: Agents affecting sensory organs	328	0,5	3,3	2,4
V: Various	241	0,4	0,1	0,1
[~] Without allocation	166	0,3	0,03	0,0
D: Dermatologicals	45	0,1	0,6	0,4
P: Antiparasitic products, insecticides and repellents	3	0,004	0,03	0,02

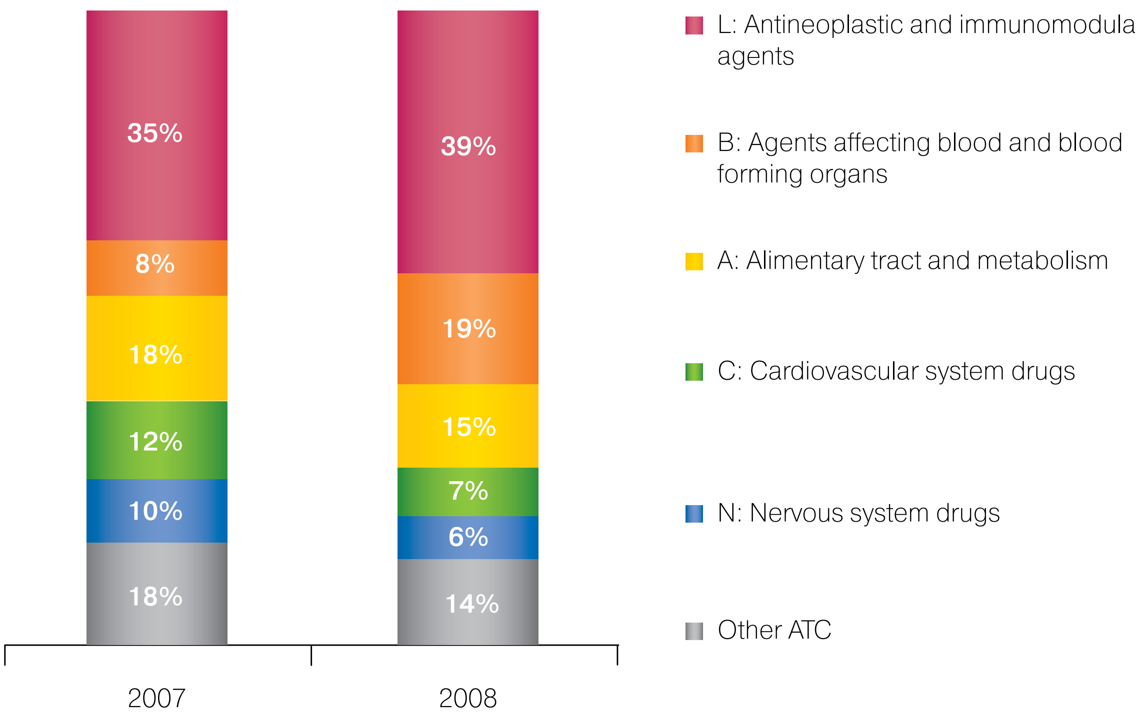
Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

In 2008, as well as it was in the previous years, the group [L] "Antineoplastic and immunomodulating agents" is the leader of the Drug Reimbursement Program by drug sales value. Its share continues to grow from 35% to 39%. Group [B] "Agents affecting blood and blood forming organs" and group [A] "Alimentary tract and metabolism" place the second (19%) and the third position (15%), respectively.

In 2008, the DLO structure by ATC groups has significantly changed. More than 85% of consumption is shared between 5 ATC groups; their proportion has significantly changed (see Diagram 17).

Diagram 17

Sales proportion by ATC groups in the DLO Program



Source: DSM Group. **ISO 9001:2000**

Group [L] "Antineoplastic and immunomodulating agents" already covers 2/5 of DLO sales. In sales value this group grew in 1.5-fold. It should be noted that this group mainly includes expensive drugs. The average price of unit in ATC [L] exceeds 12 000 rubles. The most expensive drug in 2008 was NEXAVAR manufactured by BAYER SCHERING PHARMA AG; its price amounts to about 240 thousand rubles.

The maximal growth in terms of money was shown by group [B] "Agents affecting blood and blood forming organs": ATC increased 3-fold. This was due to more than 320-fold growth of OCTANATE manufactured by OCTAPHARMA. This drug is a member of DLO part "7 nosologies" and is an expensive drug product.

Other ATC groups, which are included in TOP-5, decreased their shares, and the last 2 ([C] and [N]) even reduced their volume.

It is interesting to look at how much money is spent for treatment of specific disease under this Program. We classified drug list by diseases. As a result, the following ranking was obtained (see Table 8).

Table 8

Cost ranking in DLO by diseases, 2008

Disease	Volume, mln rubles	Share, %
ONCOLOGY	18 436	27,7
DISORDERS OF BLOOD AND HEMOPOIETIC ORGANS	12 386	18,6
AUTOIMMUNE DISORDERS (incl. IMPLANTOLOGY/TRANSPLANTOLOGY)	8 143	12,2
DIABETES MELLITUS	7 502	11,3
CARDIOVASCULAR DISORDERS	4 946	7,4
NERVOUS DISORDERS	3 788	5,7
RESPIRATORY DISORDERS	3 465	5,2
ALIMENTARY DISORDERS	2 118	3,2
HARMONAL DISORDERS	2 049	3,1
MUSKULOSKELETAL DISORDERS	1 488	2,2
VIRAL, FUNGAL, PROTOZOAL DISEASES etc.	621	0,9
MALE AND FEMALE REPRODUCTIVE DISORDERS	528	0,8
OTHER	442	0,7
OCULAR DISORDERS	328	0,5
ANTIVIRAL THERAPY AIDS/HIV	258	0,4
SKIN DISEASES	45	0,1

Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

Like in 2007, the maximum funds in the DLO program were assigned for purchase of drugs for treatment of oncology diseases – more than 18 billion rubles. New and effective antineoplastic drugs have very high price (the cost of one unit of Velcade, ranking leader of DLO, amounts to more than 74 housand rubles), that is why the treatment requires high expenditures. Expenses share of the State for diabetes mellitus drugs decreased from 13% to 11%, while that for cardiovascular system and immune system drugs increased.

4. Manufacturers in the DLO program

Table 9 shows TOP-20 manufacturing companies leading by the consumption volume in the DLO program in 2008.

Table 9

TOP-20 drug manufacturers by the consumption volume in the DLO program in 2008

2008 ranking	Change	Manufacturer	Sales value, mln of rubles 2008	Sales value increase, %	Share, %
1	+1	JANSSEN PHARMACEUTICA N.V.	8 815	76	13,2
2	+1	F.HOFFMAN-LA ROCHE	6 546	37	9,8
3	-2	NOVARTIS	6 286	1	9,4
4	+28	OCTAPHARMA AG	5 049	1743	7,6
5	-1	NOVO NORDISK	5 040	21	7,6
6	-1	BAYER SCHERING PHARMA AG	3 555	47	5,3
7	-	TEVA PHARMACEUTICAL	3 118	37	4,7
8	-2	ASTRAZENECA	2 020	-7	3,0
9	-1	SANOFI-AVENTIS	2 003	28	3,0
10	-1	ELI LILY	1 810	44	2,7
11	+22	BIOTEST PHARMA GMBH	1 563	472	2,3
12	-	GLAXOSMITHKLINE	1 223	14	1,8
13	+18	BAXTER HEALTHCARE CORP	1 179	330	1,8
14	-4	SCHERING-PLOUGH	1 121	-6	1,7
15	+3	GENZYME CORPORATION	1 044	86	1,6
16	-1	SERVIER	1 021	13	1,5
17	-6	BOEHRINGER INGELHEIM	952	-18	1,4
18	+10	ARES-SERONO GROUP	916	178	1,4
19	-2	BERLIN-CHEMIE/A.MENARINI/	681	-20	1,0
20	-4	KRKA	544	-36	0,8

Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

In 2008, 309 manufacturers took part in the DLO program, which is significantly higher than that in 2007.

In 2008, Janssen Pharmaceutica pressed Novartis from the first position and became the leader of the DLO Program. Sales value increase of the leader of the DLO Program amounts to 76% in this year.
TOP-20 ranking is mainly presented by companies supplying drugs for treatment of 7 nosologies. Therefore, it is of interest to look what is the ranking for each individual program.

Table 10

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

7 nosologies			Usual list		
2008 ranking	Manufacturer	Share in group, rubles,%	2008 ranking	Manufacturer	Share in group, rubles,%
1	JANSSEN PHARMACEUTICA N.V.	18,8	1	F.HOFFMAN-LA ROCHE LTD	9,3
2	OCTAPHARMA AG	15,2	2	NOVO NORDISKL	8,7
3	NOVARTIS	14,2	3	JANSSEN PHARMACEUTICA N.V.	8,1
4	BAYER SCHERING PHARMA AG	10,8	4	ASTRAZENECA UK LTD	5,9
5	F.HOFFMAN-LA ROCHE LTD	10,4	5	SANOFI-AVENTIS	5,8
6	TEVA PHARMACEUTICAL	7,1	6	NOVARTIS	5,0
7	NOVO NORDISKL	6,4	7	ELI LILY	4,9
8	BIOTEST PHARMA GMBH	4,8	8	GLAXOCMITHKLINE	3,5
9	BAXTER HEALTHCARE CORP	3,7	9	SHERING-PLOUGH	3,3
10	GENZYME CORPORATION	3,3	10	SERVIER	3,0
11	ARES-SERONO GROUP	2,9	11	BOEHRINGER INGELHEIM	2,8
12	TALECRIS BIOTHERAPEUTICS I	0,8	12	TEVA PHARMACEUTICAL	2,4
13	PANACEA BIOTEC LTD	0,5	13	BERLIN-CHEMIE /A.MENARINI/	2,0
14	ASTELLAS PHARMA INC	0,5	14	KRKA	1,6
15	ELI LILY	0,4	15	SOLVAY PHARMACEUTICALS	1,5
16	PFIZER	0,2	16	MAKIZ-PHARMA	1,5
17	PHARMSTANDARD	0,1	17	NYCOMED	1,3
18	BIOGEN INC	0,004	18	VEROPHARM	1,3
-			19	PHARM-SINTEZ (MOSCOW)	1,2
-			20	VALENTA	1,1
TOTAL		100	TOTAL		74

Source: DSM Group. **ISO 9001:2000**

Only 18 manufacturers work with respect to 7 nosologies. These very manufacturers demonstrate significant growth in the DLO segment. For example, OCTAPHARMA grew 18-fold, BIOTEST PHARMA grew more than 5 fold.

The manufacturers' results concerning the common drug list are less impressive. Eleven manufacturers from TOP-20 reduced their sales volume. The most significant drop among TOP-20 manufacturing companies belongs to MAKIZ-PHARMA (-45%). In this year PHARM-SINTEZ had the highest increase (main brands – RESORBA, OCTREOTIDE), sales volume of this company increased almost 3.3-fold.

5. Drugs in the DLO program

Table 11 shows TOP-20 brands leading by sales volume in the DLO program in 2008.

Table 11

TOP-20 brands by sales value in the DLO program in 2008

2008 ranking	Change	Brand name	Sales value, mln of rubles 2008	Sales value increase, %	Share, %
1	+1	VELCADE	6 024	201	9,1
2	+81	OCTANATE	4 308	3126	6,5
3	-2	GLEEVEC	3 563	12	5,4
4	+5	MABTHERA	2 485	194	3,7
5	-2	BETAFERON	2 402	22	3,6
6	-1	COPAXONE-TEVA	2 290	97	3,4
7	+48	HEMOCTIN	1 545	629	2,3
8	+6	NOVOSEVEN	1 485	91	2,2
9	-5	EPREX	1 270	-2	1,9
10	-	HUMULIN	1 216	47	1,8
11	-5	LANTUS	1 185	18	1,8
12	+7	CEREZYM	1 044	86	1,6
13	-6	SERETIDE	909	-8	1,4
14	+2	RECORMON	849	12	1,3
15	+39	REBIF	804	265	1,2
16	+1	PROTAPHANE	796	22	1,2
17	+23	FLUDARA	780	122	1,2
18	-10	RISPOLEPT	768	-21	1,2
19	-8	HERCEPTIN	754	-8	1,1
20	+3	PULMOZYME	654	31	1,0

Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

TOP-20 drugs cover 53% of the total sales volume (in 2007 it was 42%), therefore the concentration in the DLO segment is increasing.

This is not by chance. The first 8 positions are occupied by the drugs included to the “high-priced” list. In addition, 4 more drugs from this list are members of TOP-20. Therefore, only 8 positions out of total list are presented in TOP-20 ranking: EPREX, HUMULIN, LANTUS, etc.

In 2008, Velcade and Octanate are heading the TOP-20 list of drug brands in the DLO program. Velcade moved from the 2nd place, and Octanate moved up from as far as the 83rd position and its share amounted to more than 6% of the total DLO volume. Glivec, leader of 2007, occupies only the 3rd place in 2008, its sales volume increased only by 12%, while the volume of the new leaders increased in several times.

In 2008, prevalence of drugs belonging to the ATC group [L] "Antineoplastic and immunomodulating agents" is observed in TOP-20 DLO brands, 8 drugs from this group entered the ranking including Velcade, the leader of TOP-20, which is used for the treatment of multiple myeloma (blood oncology disease).

On the whole in 2008 TOP brands were changed insignificantly: 15 drugs are present both in TOP-20 list - 2007 and in that by results of 2008; 5 drugs are new, all of them were included to the ranking due to the separate funding of high-priced diseases. This is why the share of high-priced drugs in ranking continues to grow. While in 2005 only 2 drugs with average weighted price over 500 rubles were presented in TOP-20 ranking, by the results of 2008 every drug from TOP-20 list has the average weighted price over 750 rubles. In 2008, the average unit price in TOP-20 amounted to more than 6 400 rubles; this price is more than 13-fold higher than that in average for the program in the whole.

6. Segments by price in DLO Program

In 2008, the average cost per unit in the DLO Program continued to grow (as already described above) and amounted to about 483 rubles.

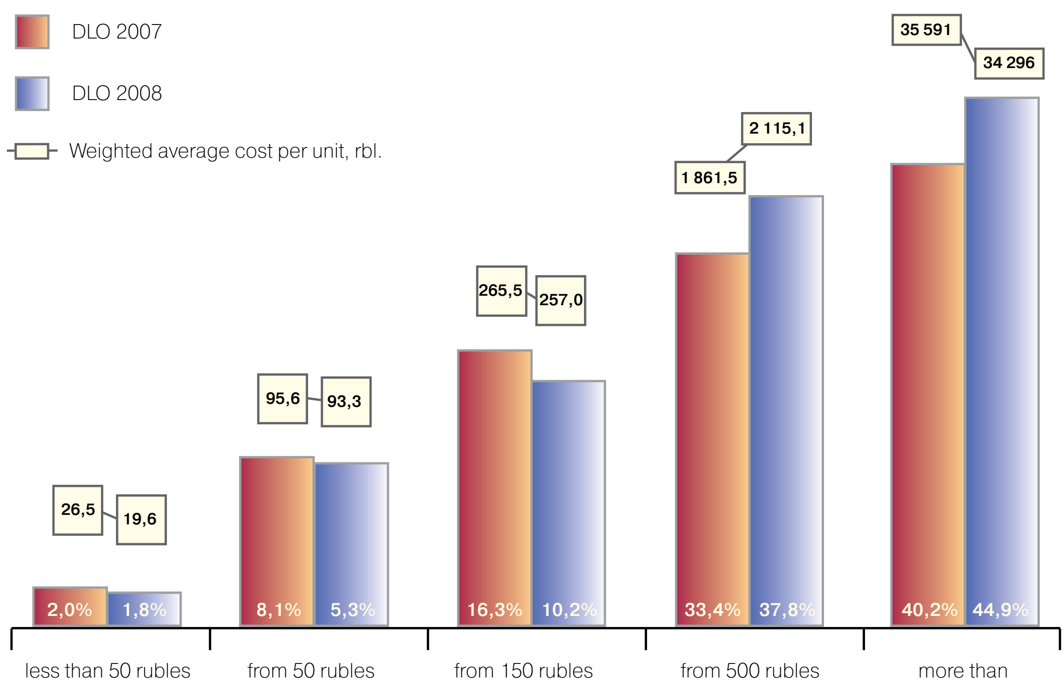
Let us see to why is the cost in DLO Program significantly higher than that on the commercial market.

Since the moment when the DLO program was introduced, the consumption structure 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 segment with price over 500 rubles amounted to less than 40% of the DLO market capacity. In 2008, this segment covers 83% of the sales value.

The drug consumption structure within the DLO program is presented in Diagram 18.

Diagram 18

DLO structure by price segments



Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

As is shown on this Diagram, the average cost per unit in the segments is dropping, except the segment from 500 to 10 000 rubles. In this segment the price of one sold unit increased by 250 rubles compared to 2007. This segment grew maximally by sales volume by 51%.

The greatest capacity still has the segment with unit price over 10 000 rubles. This segment includes about 130 full names of drugs with the majority related to one ATC group [L]: “Antineoplastic and immunomodulating agents”.

The segments of drugs priced less than 500 rubles dropped by share. At the same time, it should be noted that only segment of drugs priced less than 50 rubles increased by 20%, segments from 50 to 150 and from 150 to 500 rubles reduced in sales volume by 13% and 16% respectively.

A trend for increase of high-priced drugs in the DLO program will be kept in future as well. It will be encouraged both by increase in the number of beneficiaries with relevant diseases, and by increase in drug prices.

In 2008, hospital purchases market amounted to 2.17 million dollars. The capacity of the hospitals segment in rubles amounted to 53.6 billion rubles, which corresponds to 467 million units.

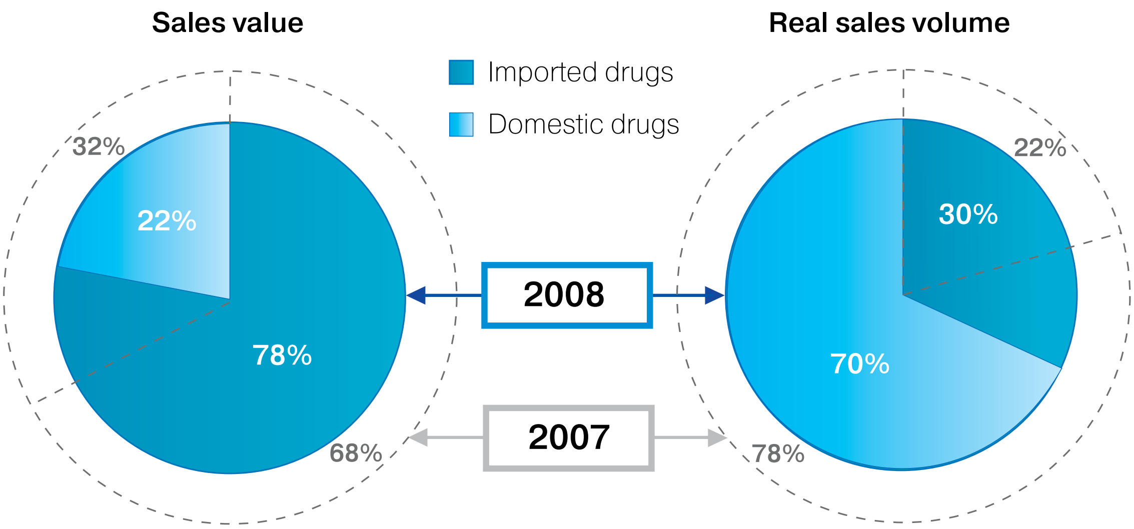
The growth of the hospitals segment in 2008 compared to 2007 amounted to 16.7% in rubles and 20.9% in dollars.

The cost of one drug unit purchased by hospitals was 115 rubles. This is more than 2 times higher than cost per unit in pharmacy purchase prices on the commercial market segment. In 2008, the increase of average cost of unit in the hospitals segment was more than 30%.

The domestically produced drugs cover 22% of sales value in the hospitals segment (their share has significantly reduced in 2008, in 2007 it amounted to about 32%). In real terms there is a prevalence of the domestic drugs, their share amounts to 70% (see Diagram 19). In most cases, this is related to the large purchase of cheap domestic drugs. The price of one imported unit is 8-fold higher than the price of one domestic unit purchased by hospitals: in 2008, the cost of one imported drug unit amounted to 296 rubles (more than 1.5-fold growth), that of domestic unit was 36 rubles (growth by about 30%).

Diagram №19

Proportion of imported and domestic drug sales

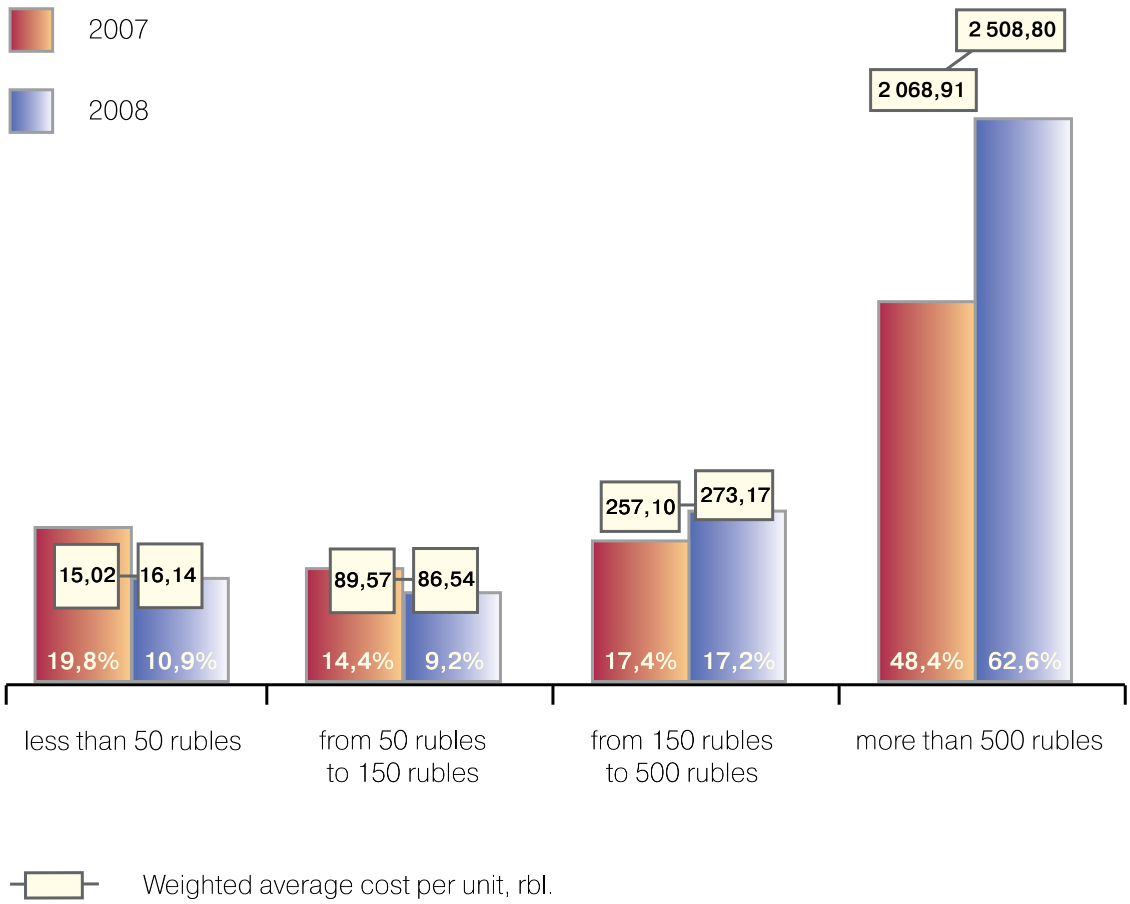


Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

The structure of hospitals segment by price categories is shown in diagram 20.

Diagram 20

Hospitals structure by price categories in 2008



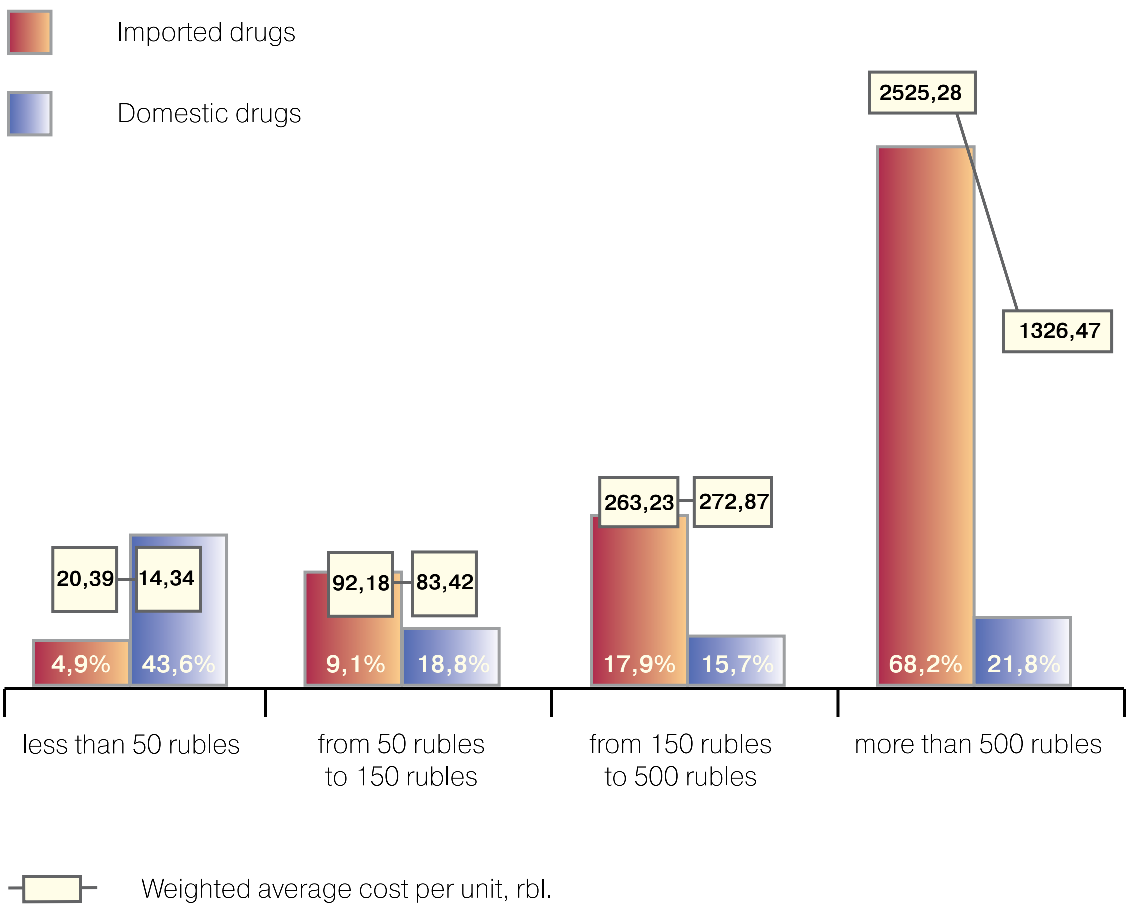
Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

The most capacious segment remains that "above 500 rubles", at the same time, its share increased almost by 14% and in 2008 it covers more than 62% of the sales value of the hospitals sector and it amounts to 3% in real terms (see Diagram 21). The segment growth was caused by decrease in the share of segments priced under 150 rubles. 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 10-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" (68%). Domestic drugs cover 44% of the price category "below 50 rubles".

Diagram 21

The structure of hospitals segment by price categories and origin in 2008



Source: DSM Group. **ISO 9001:2000**
Note: **the sales volume shown is in final consumer prices with VAT included.**

Proportion of the 1st level ATC groups by hospital purchases in Russia in 2008 is shown in Table 12.

Table 12

Structure of the hospital purchases by ATC groups

First level ATC groups	Sales value, mln of rubles	Group share in sales value, %	Real sales volume, mln units	Group share in sales value, %
J: Antibacterials for systemic use	12 427	23,2	131,4	28,1
L: Antineoplastic and immunomodulating agents	11 573	21,6	5,5	1,2
B: Agents affecting blood and blood forming organs	9 277	17,3	107,3	23,0
N: Nervous system drugs	6 114	11,4	64,2	13,7
A: Alimentary tract and metabolism	4 736	8,8	51,6	11,0
C: Cardiovascular system drugs	2 502	4,7	28,8	6,2
V: Various	1 967	3,7	7,8	1,7
M: Musculoskeletal system drugs	1 308	2,4	9,7	2,1
R: Respiratory system drugs	1 290	2,4	21,5	4,6
H: Systemic hormonal preparations (excluding sex hormones)	712	1,3	5,7	1,2
[~] Without allocation	664	1,2	3,1	0,7
D: Dermatologicals	530	1,0	23,0	4,9
G: Genitourinary system drugs and sex hormones	302	0,6	2,7	0,6
S: Agents affecting sensory organs	195	0,4	4,7	1,0
P: Antiparasitic products, insecticides and repellents	27	0,05	0,5	0,1

Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

Proportion of drug sales volumes on commercial and hospital markets differ substantially. In hospital segment the leading positions are occupied by the ATC groups, which include drugs mainly used in hospital setting for long-term treatment and/or courses of treatment for various diseases - [J] “Antibacterials for systemic use” (23%), [L] “Antineoplastic and immunomodulating agents” (22%) and [B] “Agents affecting blood and blood forming organs” (17%). Group [J] “Antibacterials for systemic use” includes the drugs used for antibiotic ([J01]), antifungal ([J02]), antituberculous ([J04]), and antiviral ([J05]) therapy. Chemotherapy with antineoplastic drugs ([L01] и [L02]) in most cases is performed by courses in hospital setting, some drugs have rather high cost (for example, the weighted average cost per unit of Hycamtin used for treatment of female genital tract cancer as well as for small cell lung cancer amounts to more than 62 thousand rubles), that is why the total share of group [L] is significant. Group [B] “Agents affecting blood and blood forming organs”, tailing the group of three leaders, includes infusion (including Sodium chloride, leader in hospital segment), perfusion and plasma substituting solutions, which also can be used only in hospital setting.

ATC groups dominate on commercial market segment, they consist of drugs which may be purchased in the pharmacies without prior consultation with physician - vitamin and mineral complexes, laxatives, antidiarrheal agents, etc.

Table 13 shows TOP-20 manufacturers in the hospitals segment in 2008. The ranking is headed by SANOFI-AVENTIS (6.5%), F.HOFFMANN-LA ROCHE LTD is its nearest competitor (5.9%), these companies exchanged their positions in 2008. BAYER SCHERING PHARMA takes the 3rd position (3.7).

Table 13

TOP-20 manufacturers in the hospitals segment

2008 ranking	Change	Manufacturer	Sales value, mln of rubles 2008	Sales value increase, %	Share, %
1	+1	SANOFI-AVENTIS	3 314	32	6,5
2	-1	F.HOFFMAN-LA ROCHE	3 015	5	5,9
3	+11	BAYER SCHERING PHARMA AG	1 909	90	3,7
4	+4	ASTRAZENECA	1 902	56	3,7
5	-2	GLAXOSMITHKLINE	1 672	5	3,3
6	+12	BERLIN-CHEMIE/A.MENARINI/	1 608	123	3,1
7	-	LEK D.D.	1 369	9	2,7
8	+23	NOVARTIS	1 325	252	2,6
9	+13	PFIZER	1 292	97	2,5
10	+3	SCHERING-PLOUGH	1 242	21	2,4
11	-6	GEDEON ROCHTER	1 193	-7	2,3
12	-6	NYCOMED	1 067	-16	2,1
13	-2	JANSSEN PHARMACEUTICA N.V.	1 007	-5	2,0
14	-4	BRISTOL-MYERS SQUIBB	993	-7	1,9
15	+5	MERCK SHARP & DOHME	942	40	1,8
16	+9	TEVA PHARMACEUTICAL	915	77	1,8
17	+30	BAXTER HEALTHCARE CORP	914	318	1,8
18	+25	FRESENIUS	901	263	1,8
19	-10	VEROPHARM	774	-30	1,5
20	-1	ABOLMED	733	4	1,4

Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

The following drugs show significant growth in hospital purchases:

- BAXTER HEALTHCARE – FEIBA (haemostatic drug used in hemophilia treatment) ensured more than 20% of sales for this manufacturer (in 2007 it was less than 2%), consequently, the company occupied the 17th place in TOP-20.
- NOVARTIS – leading brands are GLIVEC (used for myeloid leukaemia treatment) and XOLAIR (used in persistent atopic asthma, appeared in Russia in the middle of 2007) ensured company's growth in 3.5 times.
- FRESENIUS - new brand in hospital purchases is OMEGAVEN (the drug containing polyunsaturated fatty acids – Omega-6 and Omega-3, used for parenteral feeding in adult patients, when oral or enteral feeding is not possible, insufficient or contraindicated) allowed the manufacturer to move 25 positions upwards and occupy the 18th place in the ranking.
- The first positions in TOP-20 list for the hospital market were occupied by the drugs as follows: SODIUM CHLORIDE, POTASSIUM-MAGNESIUM ASPARAGINATE, and PEGASYS, as various injections and intrave-

nous infusions of different drugs are often required for treatment in in-patient setting.

Table 14

TOP-20 trade names in the hospitals segment

2008 ranking	Change	Brand name	Sales value, mln of rubles 2008	Sales value increase, %	Share, %
1	+1	SODIUM CHLORIDE	1 149	-13	2,1
2	+300	POTASSIUM-MAGNESIUM ASPARAGINATE	932	2664	1,7
3	+3	MERONEM	893	43	1,7
4	-3	PEGASYS	764	-52	1,4
5	+6	TIENAM	748	73	1,4
6	-1	PEGINTRON	735	15	1,4
7	+218	HICAMTIN	630	1311	1,2
8	-5	GLUCOSE	522	-46	1,0
9	+82	TAVANIC	509	370	0,9
10	+306	ZYVOX	480	1406	0,9
11	+34	BETAFERON	478	143	0,9
12	+5	ELOXATINE	439	36	0,8
13	+15	COPAXONE-TEVA	435	73	0,8
14	-1	AMOXICLAV	419	9	0,8
15	+125	HERCEPTIN	414	501	0,8
16	+268	GLIVEK	408	1036	0,8
17	-3	TAXOTERE	376	1	0,7
18	+8	CLEXANE	342	33	0,6
19	+53	GORDOX	336	151	0,6
20	+14	RISPOLEPT	328	43	0,6

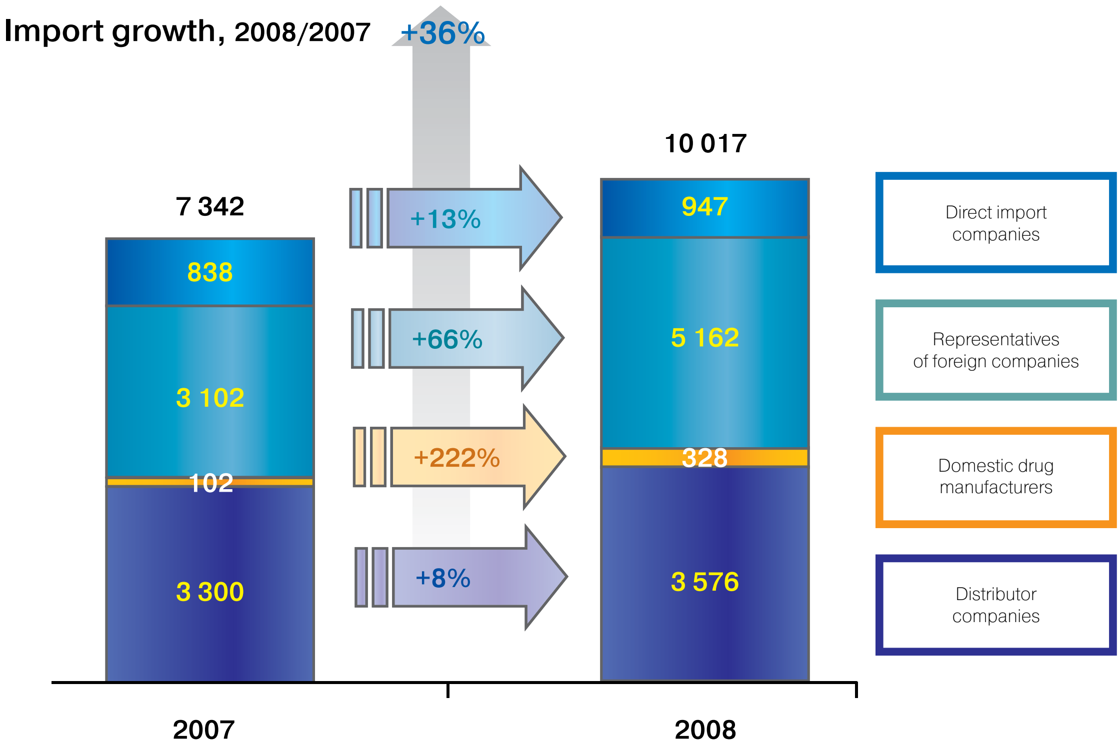
Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

SODIUM CHLORIDE is used as a 0.9% solution, isotonic to human plasma, that is why it is needed for administration of most infusion drugs. POTASSIUM MAGNESIUM ASPARAGINATE is a drug for treatment of highly prevalent cardiovascular diseases (acute myocardial infarction, arrhythmias, chronic heart failure, etc.), which became significantly "younger". The third place is occupied by MERONEM, antimicrobial agent used for treatment of lower respiratory tract infections, urinary system infections, etc. PEGASYS, leader of the previous years, moved from the first to the fourth position. The reduction of PEGASYS sales volumes in hospital segment may be related to more than 1.5-fold increase of funds spent for this drug under the DLO program (from 160 million rubles to 260 million rubles).

Diagram 28 shows drug import volume in Russia in 2008.

Diagram 28

Import volume, millions of dollars



Source: Diamond Vision

Drug import volume in Russia in 2008 amounted to 10.02 billion dollars (in customs prices[3]), which is 36% higher than that in 2007. Import increased compared to the previous year, in 2007 the growth was at the level of 14%. Such increase of imported drugs is mainly related to growth of the DLO program funding. The importers increased import of essential drugs in order to satisfy the beneficiaries' needs.

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

Table 21 shows the shares of different groups of drug importers in Russia (by import value of certain group in 2007 and 2008).

Table 21

The shares of different groups of drug importers in Russia by drug import value in 2007 and 2008

Ranjing	Importers	Shares by import volume, %	
		2007	2008
1	Distributor companies	44,9	35,7
2	Representatives of foreign companies	42,3	51,5
3	Direct import companies	11,4	9,5
4	Domestic drug manufacturers	1,4	3,3
	Total:	**100**	**100**
	Import volume, $ mln	**7 342**	**10 017**

Source: Diamond Vision

As Table 19 shows, in 2008 about 87% of the total drug import volume is covered by the two groups of importers – distributor companies and representatives of foreign companies. In 2008, import structure by importers was significantly changed compared to 2007.

First of all, the maximal import share is covered by the representatives of foreign companies, their share in total volume increased almost by 10%, while distributor companies dropped by the same value.

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 22 shows TOP-10 representatives of foreign manufacturers by import volume in 2008.

Table 22

TOP-10 representatives of foreign manufacturers by import volume in 2008

Ranking	Representative offices of foreign manufacturers	Share by import volume of the "Representative office of…", %		Increase to 2007, %
		2007	2008	
1	SERVIE	10,9	10,5	58
2	AVENTIS PHARMA	11,7	9,0	35
3	SCHERING	6,7	7,7	134
4	SANDOZ	0,0	6,7	-
5	NOVARTIS PHARMA	5,6	6,5	86
6	GLAXOSMITHKLINE HEALTCARE	4,8	5,1	87
7	ROCHE MOSCOW	11,8	5,1	-28
8	NYCOMED DISTRIBUTION CENTRE	6,8	4,6	21
9	SOLVAY PHARMACEUTICALS PR.	5,5	4,1	36
10	JOHNSON & JOHNSON	3,4	3,9	78
		Total:	**63,1**	

Source: Diamond Vision

In 2008, group "Representative offices of the foreign companies" increased by 66%, while in 2007 the growth was minimal and amounted to 12%. This is related to manufacturer's wish to have more control over its drug supplies to Russia. Such import channel allows developing pricing policy in accordance with the market reality and reacting to changes of market situation more promptly.

This is why new names appear in the ranking. In 2008, manufacturer SANDOZ ascended to the fourth place. SERVIER and AVENTIS PHARMA are the leaders of the importer group "Representative offices of the foreign companies". ROCHE MOSCOW, the leader of 2007, has lost its positions and its share reduced more than 2-fold. This resulted from 30% reduction of import volume.

A considerable increase by more than 134% is observed for Schering.

Table 23 shows TOP-10 distributors by drug import volume in Russia.

Table 23

TOP-10 distributors by drug import volume in Russia in 2007-2008

Ranking	Distributor	Share by import volume of the "Distributor companies", %		Increase to 2007, %
		2007	2008	
1	CV "PROTEK"	21,71	21,22	7
2	SIA INTERNATIONAL	25,19	20,62	-13
3	ROSTA	6,33	8,93	49
4	KATREN	5,48	8,61	38
5	R-PHARM	6,19	7,37	37
6	ALLIANCE HEALTHCARE RUSSIA	4,62	5,80	30
7	BIOTEK	2,71	3,38	15
8	GENESIS	7,63	2,68	-64
9	MORON	2,61	2,39	-8
10	TRANSATLANTIK	0,97	1,52	64
		Total:	**82,5**	

Source: Diamond Vision

As is shown in Table 17, CV Protek and SIA International remain the largest distributors by import volume in the group "Distributor companies". However, in 2008 these companies exchanged their positions and the gap between them amounted to only 0.6%. This is related to reduction of SIA participation in the DLO program, and consequently, the import volume of this company decreased by 13%.

Reduction of import of the 2nd line distributors such as Genesis, Moron, Shreya, Dominta, AS-Bureau, resulted in the fact that the cumulative share of all distributors dropped by volume of imported drugs by about 10%. The share of 10 largest distributors-importers in the total import volume of the "Distributor companies" group decreased by 3% and amounts to about 82.5% in 2008.

R-Farm keeps the leading positions (the 5th place according to the results of 2008). It is associated with active participation of this company in the DLO program.

Katren and Alliance Healthcare continue to increase their share on the commercial market segment. That is why their drug import volume is on the high level.

In autumn of 2008 Genesis announced its bankruptcy. Termination of distributors' activity resulted in decrease of import volume of one of the most significant leading companies: import decreased almost 3-fold. It is likely that in 2009 we will not see this company on the market.

Table 24 shows TOP 20 drug manufacturers by drug import volume in Russia with regard to all groups of importers.

Table 24

TOP-20 drug manufacturers by drug import volume in Russia with regard to all groups of importers in 2007-2008

Ranking 2007	Ranking 2008	Manufacturer	Shares by import value,$, % 2007	Shares by import value,$, % 2008
1	1	SANOFI-AVENTIS	5,39	4,95
2	2	BAYER SCHERING PHARMA	5,01	4,53
5	3	SERVIER	3,72	4,40
7	4	NOVARTIS	2,89	3,91
3	5	F.HOFFMANN LA ROCHE	4,71	3,71
9	6	BOEHRINGER INGELHEIM	2,72	3,37
4	7	BERLIN-CHEMIE/A.MENARINI	3,84	3,35
13	8	JANSSEN PHARMACEUTICA N.V.	2,54	2,96
10	9	LEK D.D.	2,64	2,85
8	10	PFIZER	3,01	2,84
6	11	GEDEON RICHTER	3,10	2,64
17	12	GLAXOSMITHKLINE	1,84	2,58
11	13	NYCOMED	2,48	2,36
15	14	KRKA	1,96	2,12
18	15	NOVO NORDISK	1,96	1,99
12	16	ASTRAZENEKA	2,45	1,91
31	17	OCTAPHARMA	0,88	1,85
19	18	SOLVAY PHARMACEUTICALS B.V.	1,74	1,76
21	19	TEVA PHARMACEUTICAL	1,37	1,68
14	20	SCHERING-PLOUGH	2,21	1,66
Total:			**-**	**57,41**

Source: Diamond Vision

SANOFI-AVENTIS, BAYER SCHERING PHARMA and SERVIER are the largest manufacturers by drug import volume in Russia in 2008.

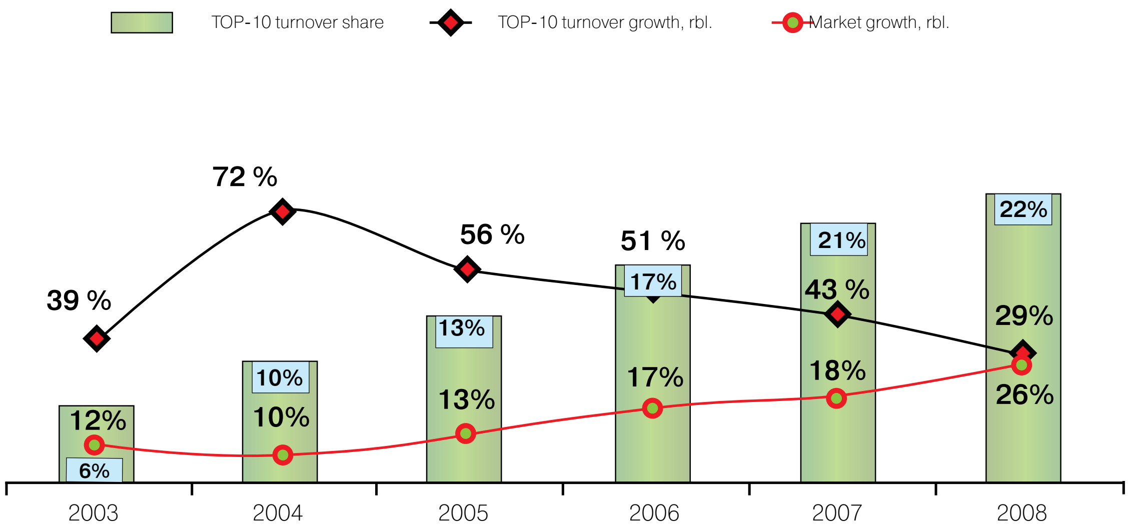
The share of TOP 20 ready-to-use drug manufacturers by import volume in Russia in 2008 amounted to 57%. Maximal growth by imported drugs volume is showed by OCTAPHARMA (+158%) and GLAXOSMITHKLINE (+70%).

Russian pharmacy retail market in 2008 is characterized by high growth rates (its commercial segment increased by 26% in rubles).
The previous year was not marked by noteworthy deals on sale or purchase of pharmacy networks. They were practically absent. Why? Firstly, already in spring of 2008 the first signs of crisis appeared; the possibility to receive a loan reduced drastically. Secondly, the cost of networks was overstated in several times of their fair value. That is why the previous year passed under the aegis of improving the efficacy of already existing networks.

In the previous year, TOP-10 pharmacy networks grew a bit faster than the market, TOP-10 increased by 29% according to annual results. This allowed networks to increase their market consolidation level only slightly. As a result, the share of pharmaceutical networks amounts to 22% versus 21 % in 2007.

Diagram 29

Concentration of TOP-10 pharmacy networks



Source: DSM Group. **ISO 9001:2000**

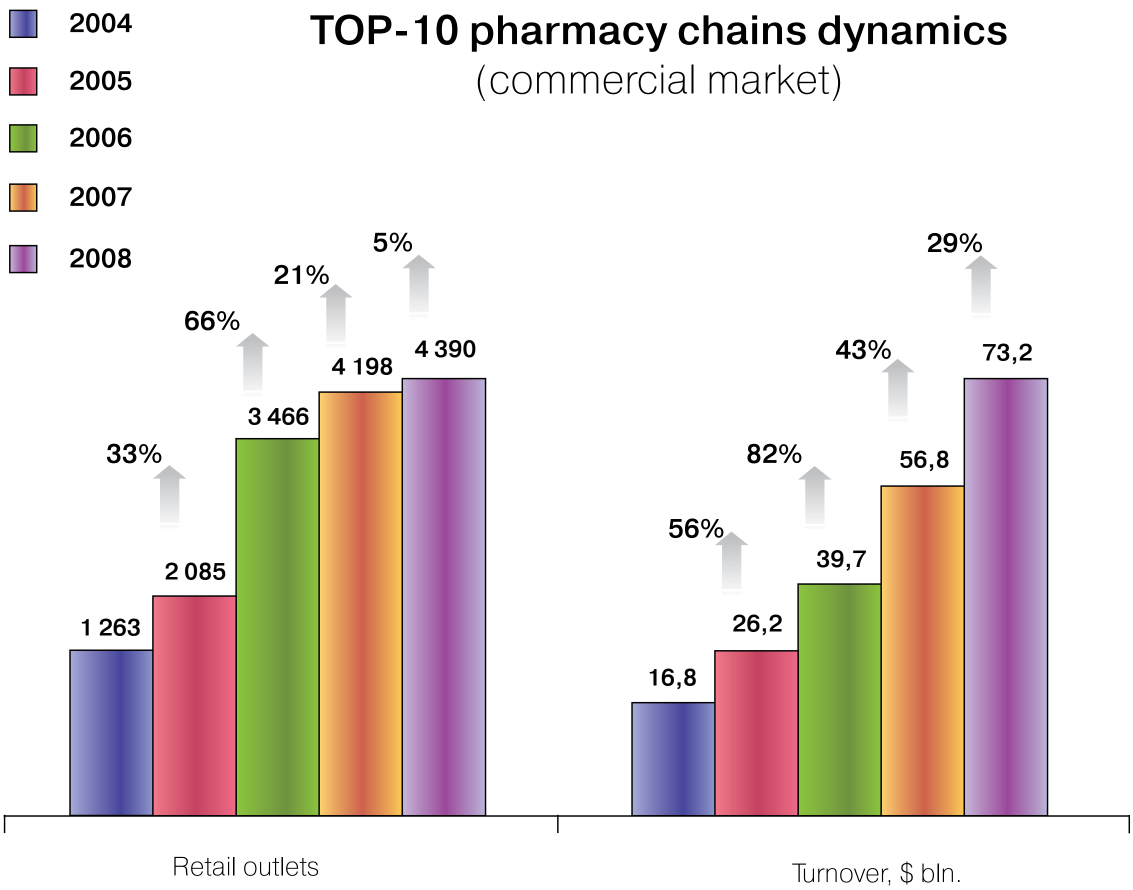
At the same time, it can be stated that the growth rates of TOP-10 slowed down: in 2006 total turnover of TOP-10 increased by 51%, in 2007 by 43%. Increase in sales volume of largest pharmacy networks was 2-3-fold higher, than the market growth. In 2008, change of turnover of TOP-10 pharmacy networks is not much ahead of increase of commercial sector capacity.

Such situation is related to the fact that the main players concentrated on business optimization and improving the efficacy of already existing outlets. Lack of spare funds resulted in increase of networks only driven by opening of the new own outlets, and not by purchase of already existing regional networks.

This is why in 2008 the increase in the number of outlets is significantly lower than that in the previous years (in total, the number of outlets belonging to TOP-10 increased only by 5% and amounted to 4390 outlets; in 2007 it increased by 21%, and in 2006 the growth was 66%). The unprofitable pharmacies became the victims of 2008.

Diagram 30

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



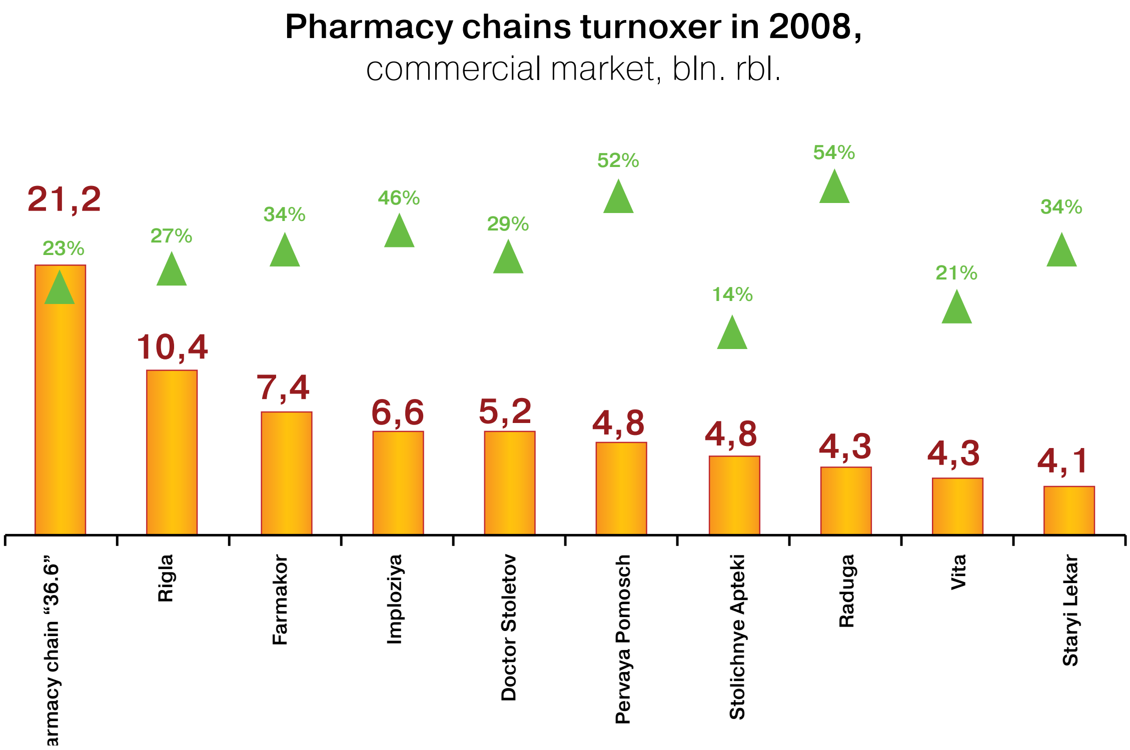
Source: DSM Group. **ISO 9001:2000**

And even in TOP-10 there are two networks ("36.6" and "Pervaya Pomosch") that reduced the number of outlets compared to 2007 according to the annual results.

Diagram 31 shows TOP-10 pharmacy networks in 2008. What is curious in this diagram?

Diagram 31

The largest pharmacy networks in Russia



Source: DSM Group. **ISO 9001:2000,** pharmacy networks own data

The networks with three-digit percent of growth reduced in number. Only two pharmacy networks make an exception: Pharmacy network A5 and PHARMAIMPEX.

Pharmacy network A5 is a "new player" in our ranking. It entered the market at the end of 2006 and had 30 pharmacies located in Moscow region. Now the network consists of 160 pharmacies located in 7 regions of the central part of Russia. Of course, the pharmacy did not implement its ambitious plans: "By October 2008 the network shall have 300 pharmacies with the turnover of 200 million dollars, and it shall control 5% of the Russian pharmaceutical retail market". However, it should be noted that in the ranking of 2007 the network was at the end of TOP-30, and according to the results of 2008 it occupied the 14th ranking position. Therefore, in order to achieve the set goals the great strides are taken forward and the pharmacy network A5 is likely to enter TOP-10 of the leading Russian networks according to the results of 2009.

In addition, the rapid moving up the ranking of the RADUGA pharmacy network owned by the pharmaceutical distributor ROSTA should be noted. In 2006, it was far beyond TOP-20, and in 2007 occupied the 11th place at once. In 2008, the pharmacy network grew by 54% and occupied the 8th ranking position. The network demonstrates not only significant turnover growth, but also increase in the number of network outlets: the results of 2008 demonstrate the increase of network by 80 pharmacies compared to the same period of 2007.

The table shows pharmacy networks ranking in the commercial sector including quantitative and value growth parameters in 2008.

Table 25

Pharmacy networks ranking by sales turnover in 2008 on the commercial pharmacy market

Ranking	Pharmacy networks	Turnover in 2008, mln of rubles	Turnover increase compared to 2007	Share of the segment 2008	Outlets numbers
1	36,6	21,2	23 %	6,3 %	1 127
2	Rigla	10,4	27 %	3,1 %	585
3	Pharmacor*	7,4	34 %	2,2 %	413
4	Implozia*	6,6	46 %	2,0 %	595
5	Doctor Stoletov	5,2	29 %	1,5 %	463
6	Pervaya Pomosch	4,8	52 %	1,4 %	166
7	Stolichnye apteki	4,8	14 %	1,4 %	240
8	Raduga	4,3	54 %	1,3 %	328
9	Vita	4,3	21 %	1,3 %	321
10	Stariy Lekar*	4,1	34 %	1,2 %	152
11	Mosoblpharmacia	3,1	15 %	1,1 %	541
12	Zdorovye lyudi	3,2	32 %	0,9 %	228
13	Klassika	2,9	95 %	0,8 %	62
14	A5	2,2	196 %	0,7 %	157
15	Opeka	2,1	80 %	0,6 %	197
16	Pharmaimpex	2,0	115 %	0,6 %	186
17	Nevis*	2,0	61 %	0,6 %	141
18	Biotek	1,8	50 %	0,5 %	366
19	Pharmland	1,8	6 %	0,5 %	128
20	O3 Pharmacy	1,6	21 %	0,5 %	74

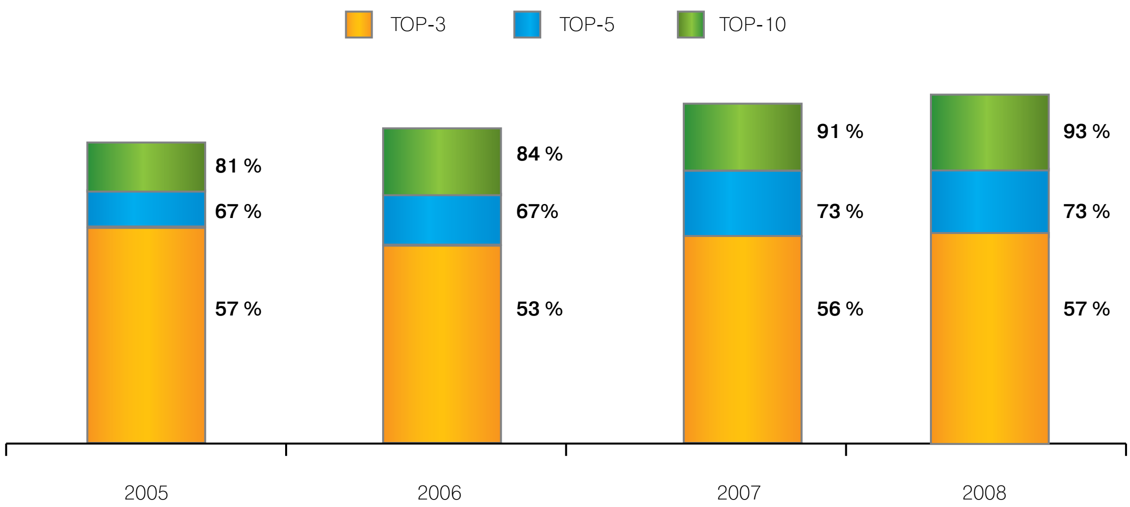
* The given number of pharmacies includes pharmacies operating under franchising agreements
Source: DSM Group. **ISO 9001:2000,** pharmacy networks own data

What is the next for retail trade? The financial crisis started in 2008 will significantly affect the development of the brand pharmacy networks. Lack of funds will lead to the fact that the pharmacies will continue to struggle for profitability of the existing outlets, and not develop the network quantitative composition. Even now the networks have significant debts to the distributors. The latters are trying to sue out the money for goods. Further the situation will only get worse: payment discipline will worsen, which will lead to reduction of pharmacy stock, shrinking of product range, and, eventually, to items out of stock.

In spite of the fact that distributors play important part on the pharmaceutical market and, in general, they have always been leaders in the process of drug supply, in the last years the State has significant influence on the distributor role allocation. Currently, the pharmacy networks and manufacturers are subject to such influence to a lesser extent. New mechanism of beneficiaries supply under the DLO program resulted in decrease of the national scale distributors' role and increase of importance of the regional wholesalers.

Diagram 35

Concentration in the distribution segment



Source: DSM Group. **ISO 9001:2000**

That is why the share of TOP-10 distributors on the pharmaceuticals market keeps growing inevitably. It is associated, firstly, with participation of R-PHARM in the DLO program. This distributor supplied about 20% of drugs distributed on 7 high-priced nosologies in value terms. Due to the DLO program, R-PHARM occupied the 6th place among the leading distributors of the country, and its sales growth is significantly higher then that of its competitors.

The third position of distributor KATREN may be considered another important event. Because the company does not take part in the governmental DLO program, it occupied the 4th place on the market in 2007. This company concentrated its best efforts on the commercial market segment. As a result, in 2008 KATREN strengthened its positions and covered about 13% of the entire pharmaceutical market in Russia leaving behind ROSTA.

In addition to the growth on the Russian market, in 2008 KATREN made the first step in the way of transformation into international holding by purchase of controlling block of shares in Venta. Ltd., which is the member of TOP-10 leading pharmaceutical distributors of Ukraine. It is known that the purchase was performed for own funds of KATREN, because currently it is a problem to use borrowed funds. Venta. Ltd. was established in 1995 in Dnepropetrovsk, where its head office is still located. Venta has five branches in Kiev, Kharkov, Donetsk, Vinnitsa and Lvov, and three representative offices in Odessa, Simferopol and Ivano-Frankovsk. In 2009, KATREN plans to purchase another pharmaceutical company in CIS.

Table 26

Shares of TOP-10 distributors on the pharmaceuticals market

2008 Ranking	Change	Distributor	Sales value, billion of rubles 2008	Sales value increase, %	Share, %
1	-	SIA	81	18	22,1
2	-	PROTEK	80	28	21,8
3	+1	KATREN	49	56	13,3
4	-1	ROSTA	38	15	10,4
5	-	ALLIANCE HEALTCARE	22	29	6,0
6	+3	R-PHARM	19	121	5,3
7	-1	BIOTEK	15	-3	4,0
8	-1	GENESIS	14	15	4,0
9	-1	MORON	14	45	3,9
10	-	SHREYA	7	-4	1,9

Source: DSM Group. **ISO 9001:2000,** companies own data
Note: the sales volume shown is in pharmacy purchase prices with VAT included.

The most expected event of 2008 was the sale of 50% of SIA INTERNATIONAL to US foundation, TPG Capital for about 800 million dollars. The parties agreed in April of the previous year. The deal was planned to be executed in autumn, then at the end of 2008. Now it is clear that the deal will not take place. TPG Capital is interested in Russian consumer market for a long time: for the last three years it proposed to purchase Sedmoy Continent, Lenta to their owners, but did not make any deal. One of the versions of such state of affairs: in 2009, TPG head office decreased its budget for Russia - while earlier the fund was willing to invest up to 1 billion dollars into local assets, now this amount is only 350 million dollars.

The financial crisis made its corrections to the distributors' activity. The relations of market participants (manufacturers, distributors and pharmacies) are based on financial and commercial lending. The growth of dollar exchange rate versus ruble destroyed the well-balanced mechanism of this system. As a result, the question arises: who is the victim? Pharmacy was not affected, because it receives goods in rubles and sells them in national currency. Thus, exchange rate risk remains with distributor. In this case, the manufacturer can stand aside and keep its interest (sentencing distributor to perishing) or take part in this process and pay the exchange rate difference.

End of 2008 was surprising for distributors that did not manage to make timely corrections in the work of manufacturers. Because of exchange rate differences the distributors sustained damages.

The hot topic of several years came true, although it was hard to believe that this would happen. It happened somewhat prosily, without excessive ceremonies and emotions. On December 24, 2008 the Ministry of Justice of the Russian Federation registered Order No.427 of the Ministry of Economic Development of the Russian Federation dated December 05, 2008. The order affected more than ten industries, and it was even a bit frustrative, because we have been waiting for this for several years, but it relates not only to the pharmaceutical market. There is no a single word about medicinal products, only scanty figures of OKDP 2400000, which speaks nothing to uninvolved specialists. However, this very group code includes code 2423000 – Medicinal products. What is the point of this order? Everything is quite simple: "Upon placement of orders for the supply of goods for government and municipal needs through competition or auction for order placement participants whose applications contain offers on supply of goods of Russian origin, the preferences are provided with respect to the contract price in the amount of 15 percent in the order envisaged by clauses 3-4 hereof" (original spelling is kept). Practically it means that price for goods of Russian origin can be 15% higher than that of foreign analogues, and even if difference in price is 15% the state (municipal) contract should be executed with competition participant whose application contains offer on supply of goods of Russian origin. The order has other surprises: "...in case if auction winner submits application for participation in an auction containing offer on supply of goods of foreign origin, the state (municipal) contract with such contract winner shall be executed under the price offered by the auction participant decreased by 15 percent of the initial (maximal) price of the state (municipal) contract". This is a protective order by its nature, which ensures preferential access of goods of Russian origin to the state procurement.

What are the "positive" principles of the Order? There is no definition of the Russian origin for medicinal products. What stage of manufacturing allows to consider that this is a Russian drug? Will packing of tablets in a blister grant a drug the status of Russian origin? In such circumstances, this will be a benefit for manufacturers having own or contracted production facilities in Russia. Secondly, the 15% barrier shall not apply if customer places order subject to Law No.94-ФЗ in one supplier. Essentially, it protects manufacturers of original drugs from 15% price reduction, which are under patent protection and automatically win competitions and auctions due to unavailability of analogues.

Probably, the Order is government's actions for protection of the Russian manufacturers in the time of world crisis and does not aim to encourage foreign manufacturers to migrate their production facilities to Russia, since investments in construction would need a long time to pay back, and the Order will become invalid on December 31, 2010. It is very difficult to build a factory for such a short period taking into account the crisis: Of course, the expiration of the Order can be endlessly postponed, the way the mandatory GMP implementation in the Russian enterprises is endlessly postponed.

As the saying goes: "a blessing in disguise". The crisis not only put Russian manufacturers on the verge of survival, but, curiously enough, it saved a lot of them from shutdown, since, to all appearances and in consideration of the crisis, massive GMP implementation will be deferred for undefined period.
2009 will show how a domestic manufacturer is able to use the given opportunities.

According to the results of 2008, it may be said that current ranking positions of the Russian companies are not encouraging. Only one manufacturer entered TOP-20. The good thing is that it occupied the fifth place; this company is PHARMSTANDARD.

Table 27

TOP-20 drug manufacturing companies by sales volume on Russian commercial market in 2007-2008

2008 Ranking	Change	Manufacturer	Sales value, millions of rubles 2008	Sales value increase, %	Share, %
1	+1	NOVARTIS	14 941	25	4,2
2	-1	SANOFI-AVENTIS	14 785	21	4,1
3	-	F.HOFFMANN-LA ROCHE	12 592	23	3,5
4	+2	JANSSEN PHARMACEUTICA N.V.	11 972	49	3,3
5	-	PHARMSTANDARD	11 108	37	3,1
6	-2	BERLIN-CHEMIE /A.MENARINI/	10 888	29	3,0
7	-	BAYER SCHERING PHARMA	10 671	42	3,0
8	-	NYCOMED	9 018	25	2,5
9	-	GEDEON RICHTER	8 831	23	2,5
10	+2	PFIZER	7 696	29	2,2
11	-1	LEK D.D.	7 661	20	2,1
12	+1	SERVIER	7 363	27	2,1
13	- 2	GLAXOSMITHKLINE	7 197	17	2,0
14	+3	TEVA PHARMACEUTICAL	6 450	37	1,8
15	-1	KRKA	6 020	17	1,7
16	+2	NOVO NORDISK	5 907	26	1,7
17	-1	BOEHRINGER INGELHEIM	5 694	19	1,6
18	+103	OCTAPHARMA	5 562	1487	1,6
19	+1	ASTRAZENEKA UK	5 413	21	1,5
20	-1	SCHERING-PLOUGH	5 305	13	1,5

Source: DSM Group. **ISO 9001:2000**
Note: the sales volume shown is in final consumer prices with VAT included.

- While in 2008 distributors and pharmacy networks are having slack in terms of M&A deals, the manufacturers are seeking to strengthen their position by purchase of competitors and expansion of portfolio by generics in view of upcoming expirations of patents for original drugs in 2010-2012:
- - Bayer HealthCare purchased OTC drugs portfolio of Sagmel, the US company;
- - Sanofi-Aventis declared completion of purchase of Zentiva whose product range includes brand generics and affordable drugs;
- - At the end of 2007, Schering-Plough completed the purchase process of Organon, but already in the 1st quarter of 2009 it itself became the subject of acquisition: Merck & Co. purchased Schering-Plough for 41 billion dollars;
- - One of the largest deals took place in the first quarter of 2009: Pfizer Inc. purchased Wyeth for

68 billion dollars;

- - in 2008, Nizhfarm and Makiz-Pharma completed their merger, and now they are members of international holding Stada;
- - Teva, the Israeli pharmaceutical company, finished the year 2008 with the deal for billions of dollars concerning purchase of US generic company Barr, which structure includes Croatian pharmaceutical company Pilva.

Table 28

Change of manufacturer ranking positions after mergers and acquisitions

	Position prior to M&A	Position after M&A	Share prior to M&A	Share after M&A
SANOFI-AVENTIS	2	1	4,14 %	4,80 %
BAYER SHERING PHARMA AG	7	3	2,99 %	3,59 %
TEVA PHARMACEUTICAL	14	8	1,80 %	2,69 %
PFIZER	10	11	2,15 %	2,18 %
SHERING-PLOUGH	20	15	1,48 %	1,94 %
STADA ARZNEIMITTEL AG	170	24	0,07%	0,99 %

Source: DSM Group. **ISO 9001:2000**

Some other companies (Ratiopharm, Solvay Pharma, etc.) appear as possible subjects of acquisition.
Thus, in the ranking of 2009 we may not see the manufacturers whose names are known by everybody. Crisis is the right time to purchase assets if the financial funds and possibilities are available.

About DSM Group

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

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

RESEARCH

QMS meets ISO 9001:2000 requirements

- Monthly retail audit of the Russian pharmaceutical market, which you can see in 21 working days
- Weekly retail audit of the Russian pharmaceutical market, which you can see in 3 calendar days
- Hospitals audit
- DLO database
- Drugs and substances import database
- Multifactor analysis of competitors environment
- Monitoring and analysis of drug sales by distributors
- Monthly analysis of market capacity, tendencies and forecasts
- Ad-hoc research

ADVERTISING

- Design and corporate identity creation
- Souvenirs for pharmaceutical sphere
- Printing
- Events (conferences, lections, corporate events, show)

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

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

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