



**RUSSIAN  
PHARMACEUTICAL MARKET**

**2005**



## SPEECH OF WELCOME



Dear colleagues!

In 2005 the domestic pharmaceutical market showed unprecedented growth of 35% due to Beneficiary Drug Provision Program (BDP Program), which allowed Russia to improve its World Ranking to 12-th position.

The Russian pharmaceutical market becomes increasingly more interesting for foreign investors. A week never passes without discussion of the latest hot news on the market: yet another company was purchased. The other companies are also alert strenuously preparing for the potential assets sale.

What we observe today is just the initial phase of integration into the global economy. The next «shot in the arm» will be Russia joining the World Trade Organization (WTO) anticipated a year from now. «Now that the ice was broken, the process will get under way».

Yours faithfully,  
Alexander Kuzin  
Director General of DSM Group

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All information is based on retail audit  
of Russian pharmaceutical market data by DSM Group,  
QMS meets the requirements of ISO 9001:2000



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## SUMMARY

In 2005 the Russian pharmaceutical market volume amounted to 9.0 billion dollars (VAT included) in consumer prices, and 7.2 billion dollars (VAT included) in wholesale prices. The market growth is 35% in consumer prices.

Beneficiary Drug Provision (BDP) program turned to be the main market driving force. Without BDP segment market increased only by 15%, so BDP program gave additional growth of 20%.

Russian market growth rate is very high: Russia is now on the 12th place in the world by drug retail market capacity, which amounts to 6.6 billion dollars with BDP segment.

The pharmacy market volume (ready-to-use drugs without regard to BDP segment) over the entire 2005 amounted to 4.0 billion dollars in 2005, with 7% increase in relation to 2004.

From Russian Ministry of Health and Social Development data BDP market volume for 2005 as estimated by DSM Group amounts to about 1.37 billion dollars in consumer prices.

The parapharmaceutical market growth rate, including nutrition segment is 41% in consumer prices in 2005.

As DSM Group predicts, pharmaceutical market volume in 2006 will amount to 10 billion dollars in consumer prices, with 10% increase in relation to 2005. BDP program will make a profound impact on the market again. As estimated by DSM Group, about 30 billion dollars will be laid out for BDP program in 2006.

By 2010 pharmaceutical market will increase by 70-90% and amount to 15-17 billion dollars in the end consumer prices.

Drug import volume in 2005 was 4.7 billion dollars in customs prices <sup>1</sup>, which is 55% higher compared to 2004.

CV «Protek» has the highest import volume (27.0%) within Distributor companies group, SIA International (22.8%) is the second. Lag to others is great indeed.

Sanofi-Aventis leads the pharmaceutical manufacturers rating by sales volume in 2005.

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<sup>1</sup> Customs price does not include customs tax (mainly 10%), VAT (10%) and specific tax (0.15%).

## SUMMARY



Pharmstandard is the first Russian manufacturer in TOP 3 by pharmacy sales value.

In 2005 nutrition supplements pharmacy market amounted to 249 million dollars which is equal to 169 million packs.

Pharmacy nets reinforced their position among other market players by enlargement, geographic expansion, and pharma-markets development.

Tendency to business diversification due to pharmaceutical plants purchase and construction has been outlined among large distributor companies: such as CV «Protek», SIA International and Biotek.

The most attractive Russian areas by pharmaceutical market volume, growth rate and drug consumption per head are:

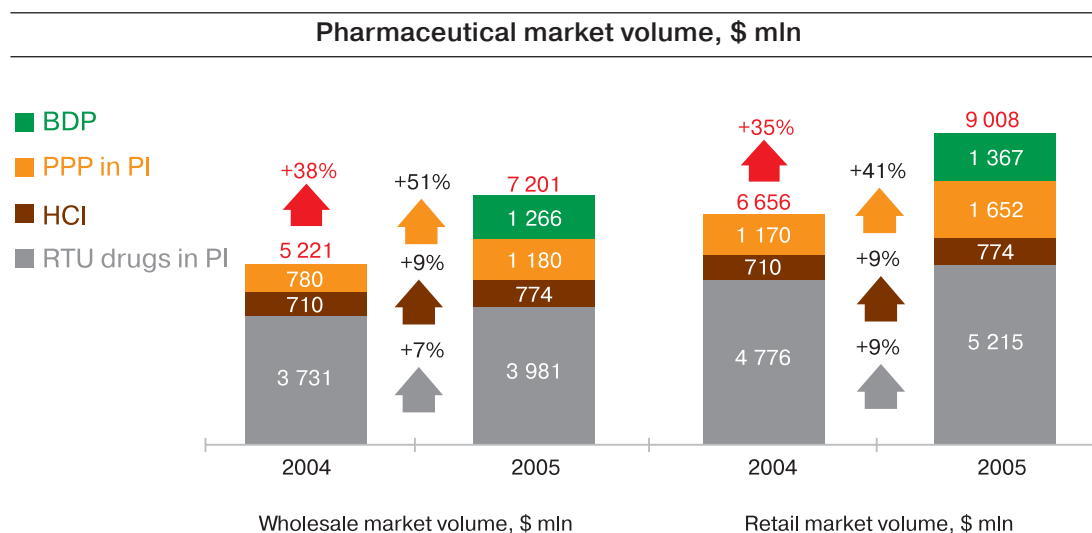
Moscow	Moscow Region
Saint Petersburg	Novosibirsk Region
Irkutsk Region	Altai Territory
Sverdlovsk Region	Khanty-Mansi Autonomous Region
Samara Region	Omsk Region
Bashkir Republic	Khabarovsk Territory
Chelyabinsk Region	Leningrad Region
Kemerovo Region	Sakha (Yakutiya) Republic

## PHARMACEUTICAL MARKET VOLUME IN RUSSIA

Perhaps the events that took place in 2005 on the Russian pharmaceutical market have affected even those who have no direct relationship with the pharmaceutical market. The outcomes for this year were intriguing well before it started, particularly when the government presented with the «puzzling» Beneficiary Drug Provision Program. Initially, nobody knew exactly what the nature of this program was, and what impact, positive or negative, this program might have on pharmaceutical market members. Moreover, not all believed that the State is capable to actualize this program. But now certain results of this challenging but generally successful year can be summarized.

Diagram 1 shows dynamics of Russian pharmaceutical market volume in pharmacy purchase prices and in retail prices in 2004-2005.

Diagram 1



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

**Note:** BDP – Beneficiary Drug Provision; PPP in PI – parapharmaceutical products (nutritional supplements, beauty products etc.) in pharmacy institutions (PI); HCI – health care institutions; RTU drugs in PI – ready-to-use drugs in pharmacy institutions (PI).

Thus, according to the retail audit by DSM Group, the pharmaceutical market volume in 2005 amounted to 7.2 billion dollars (VAT included) in pharmacy purchase prices, and to 9.0 billion dollars (VAT included) in retail prices.

Retail market growth amounted to 35%. This figure looks very impressive when compared with the dynamics in previous years. Then, what may such outstanding pharmaceutical market growth rate be attributed to?

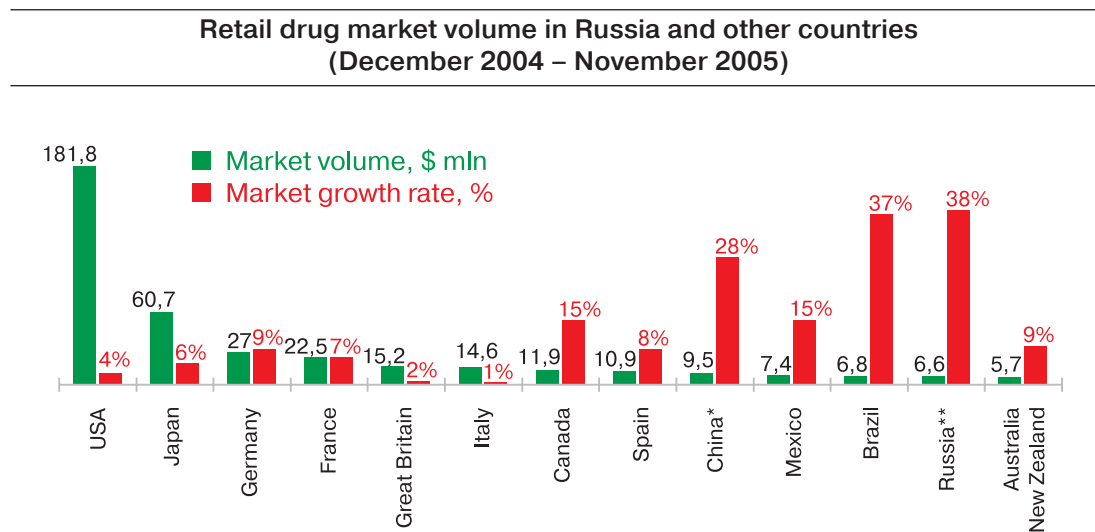
As could be expected, in 2005 the pharmaceutical market growth was mostly stimulated by the Beneficiary Drug Provision Program. The market growth amounted only to 15% when unaccounted for the Beneficiary Drug Provision segment that appeared in 2005. Thus, implementation of the Beneficiary Drug Provision Program provided additional market growth of 20%. However, last year there was one more stimulus for market growth – parapharmaceutical products. Diagram 1 demonstrates that parapharmaceutical segment in retail prices showed growth almost 1.5-fold in 2005 compared to that in 2004. This may be attributed to a number factors. On the one hand, in 2005 there was an increase in tendency for development of pharmacy networks and implementation of open trade, and the share of parapharmaceutical products in pharmacy networks with open trade regimen is significantly higher compared with that in other pharmacies. On the other hand, popularization of the healthy life-style coupled with the growth of personal income caused people to spend more money in pharmacies, buying more products contributing to their healthy lifestyle, e.g. nutritional supplements.

## RUSSIAN RETAIL DRUG MARKET IN COMPARISON WITH OTHER WORLD COUNTRIES

While speaking of high growth rate on the pharmaceutical market in Russia, one should broaden the matter. Russian pharmaceutical market is only the small part of the world pharmaceutical market. How big is retail market volume of ready-to-use drugs (RTU drugs, referred to as «drugs» hereafter) in Russia when compared with markets in other countries?

Diagram 2 shows several world countries ranking by retail drug market volume in 2005.

**Diagram 2**



**Sources:** IMS Health, Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets the requirements of ISO 9001:2000

Diagram 2 demonstrates that Russia occupies the honorary 12th position in the world ranking leaving behind Australia/New Zealand. One may confidently claim that the Russian retail drug market becomes interesting in terms of the world pharmaceutical market.

In 2005 the growth rates on retail drug market in Russia were the highest when compared with those in other countries. If this tendency for such active growth will be maintained, Russia may well pretend to join TOP-10 countries. However, it is unlikely that Russia will be ahead of China, which has a very high pharmaceutical market growth potential due to implementation of «western lifestyle» among its large population. On the other hand, Russia will most likely leave Mexico and Brazil behind.

Anyway, Russia steadily keeps place among TOP-10 European countries by retail drug market capacity.

\* Chinese pharmaceutical market volume is shown for 2004.

\*\* Russian pharmaceutical market volume in 2005 according to DSM Group data.



### Short-term forecast for 2006

Thus, if the Russian pharmaceutical market will sustain growth rates that were set up in 2005, the desired aim will be reached, and then the new objectives will be to set up. How high is the probability that the existing market growth rates will be maintained in the future? This depends on a variety of long-term and short-term factors.

According to DSM Group estimates in 2006 the pharmaceutical market growth will be again mostly influenced by the Beneficiary Drug Provision Program. Forty six percent of beneficiaries refused participation in the Beneficiary Drug Provision Program in order to receive money instead. It is important that only 70% of those who planned to refuse participation in the Beneficiary Drug Provision Program have documented their refusal in written according to «Beneficiary Drug Market Research»<sup>2</sup>, which was conducted by DSM Group in December 2005 – January 2006. According to DSM Group estimate, the amount of money intended for funding Beneficiary Drug Provision Program in 2006 will be slightly lower than that in 2005. While in 2005 the sum of 51 billion rubles was initially earmarked for this program and 39 billion rubles were actually spent, in 2006, the intended sum will amount to 30 billion rubles.

At the same time, some of the beneficiaries who have received monetary compensation will purchase drugs in commercial sector. Therefore, in 2006 the growth rates of the pharmacy segment of the ready-to-use drugs will be higher compared to those in 2005. According to DSM Group estimate, these rates will amount to approximately 16%.

Since, most likely, the tendency for further development of pharmacy networks and growth of personal income will persist in 2006, the growth rates of the parapharmaceutical segment may again appear to be the highest. According to DSM Group estimates, the growth rates will amount to approximately 35%, i.e. slightly lower than in 2005.

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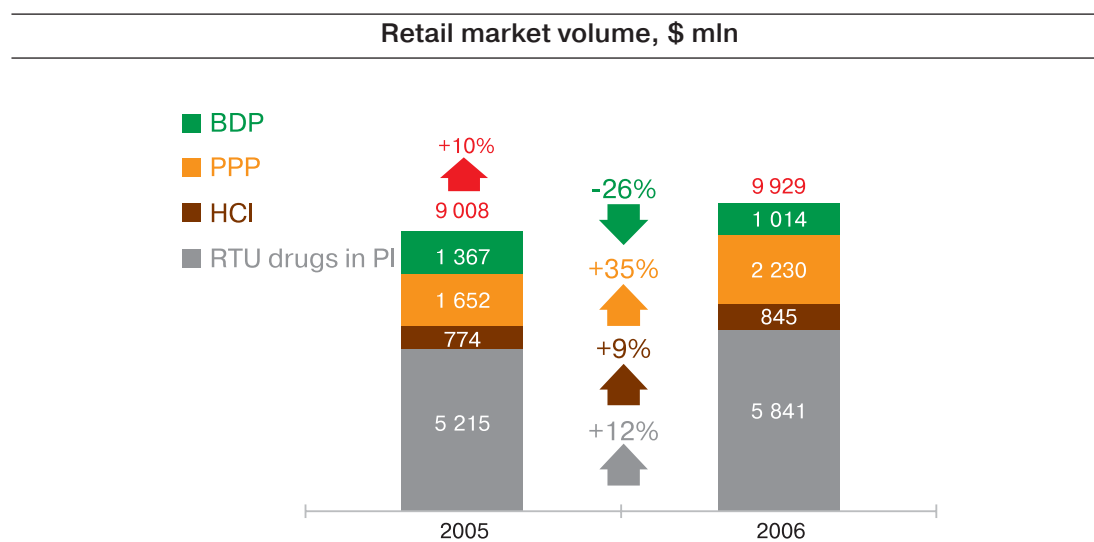
<sup>2</sup> 1615 respondents in 59 constituent entities of Russian Federation were personally interviewed during this «Beneficiary Drug Market Research».

## FORECAST OF RUSSIAN PHARMACEUTICAL MARKET DEVELOPMENT

### Short-term forecast for 2006

Therefore, the pharmaceutical market volume in 2006 may appear this way:

Diagram 3



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

**Note.** BDP – Beneficiary Drug Provision; PPP in PI – parapharmaceutical products (nutritional supplements, beauty products etc.) in pharmacy institutions (PI); HCl – health care institutions; RTU drugs in PI – ready-to-use drugs in pharmacy institutions (PI).

Diagram 3 demonstrates, that in 2006 the market volume will amount to approximately 10 billion dollars in retail prices with 10% increase in relation to 2005.



## ● Long-term forecast for 2010

Most factors that may have long-term influence on the Russian pharmaceutical market will stimulate market growth. What are the components of market growth potential in Russia?

### **1. Growth of personal income**

The tendency for growth of personal income that was observed recently, most likely, will persist further. This will have positive effect on the entire pharmaceutical market in general and particularly on its parapharmaceutical segment.

### **2. Russia's entry into WTO**

Russia's entry into the WTO will lead to increase of investments in domestic industry and retail sector. Just now there are several companies among domestic manufacturers that are capable of attracting western investors. Retail networks will be the most attractive component of the retail drug sector. All these issues will lead, on the one hand, to increase of domestic drugs' export and, on the other hand, to the growth of the parapharmaceutical segment, and, above all, to promotion of Russia's integration into the world pharmaceutical market.

### **3. Increase of VAT on drugs from 10% to 13%**

Intended implementation of uniform VAT will lead to increase of VAT on drugs to 13% in 2008, which in turn will result in increase in retail prices. In response, the certain part of population will buy cheaper drugs. As a result, retail drug market volume will increase but this growth will be lower than increase of VAT.

### **4. Development of voluntary pharmaceutical insurance**

The voluntary pharmaceutical insurance is another promising trend in pharmaceutical market development. It will have a positive, though not very significant influence on the market. However, this may be expected not earlier than in 2009, since the implementation of this type of insurance is directly related to development of voluntary medical insurance.

Moreover, there is a group of factors that have long-term effects on the pharmaceutical market, which significantly depend on the State's activity in the pharmaceutical market. Accordingly, there are two scenarios of market development.

## FORECAST OF RUSSIAN PHARMACEUTICAL MARKET DEVELOPMENT

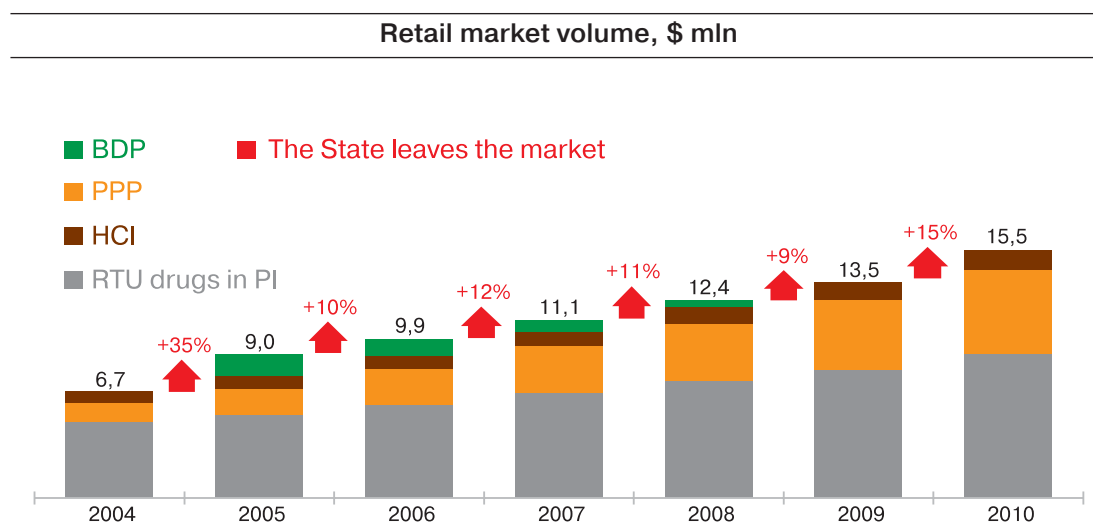
### Long-term forecast for 2010

#### Scenario No. 1: The State leaves the market

In case the State decides not to participate actively in the pharmaceutical market development, this will primarily affect the Beneficiary Drug Provision Program. Increasingly more beneficiaries will refuse this program in absence of active support from the State. That may cause this program to wind up entirely after Elections 2008. However, there are no serious backgrounds for the realization of this scenario and it appears to be unlikely.

According to DSM Group estimates, such a scenario will change the market as follows:

Diagram 4



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

**Note.** BDP – Beneficiary Drug Provision; PPP in PI – parapharmaceutical products (nutritional supplements, beauty products etc.) in pharmacy institutions (PI); HCl – health care institutions; RTU drugs in PI – ready-to-use drugs in pharmacy institutions (PI).



● **Long-term forecast for 2010**

**Scenario No. 2: The State actively participates in the market**

The active participation of the State will primarily influence the Beneficiary Drug Provision Program development. This program development will rely on involving new categories of citizens who will be able to receive drugs at discount prices or free-of-charge. This group will include pensioners, pregnant women and children under 3 years of age.

Beneficiary Drug Provision Program development will tighten control of drug turnover in this sector. Intention of the State of prescribing drugs by international non-proprietary name (INN) rather than by trade name will be realized as well.

That, on the one hand, will reduce influence of drug manufacturers on drug prescription by physicians, and on the other hand, will enhance the role of authorized distributors and pharmacies. The distributors will ensure supply of a range of beneficiary drugs and the pharmacists will sell these products to beneficiaries. Both distributor and pharmacy will try to supply and sell drugs with the best profitability.

Program of compulsory medical insurance may serve as a potent stimulus for the development of the pharmaceutical market. This program is intended for providing healthcare and preventive care in able-bodied population. The realization of this program may have significant influence on pharmaceutical market capacity on the threshold of the Presidential elections.

The hospital sector will receive extra stimuli for development as well. Drug sales growth rate in health care institutions will increase by means of additional State financing under the «Zdorovye» («Health») Program.

The impact of Russia's entry into the WTO will show itself gradually, and the first significant results can be expected by 2010.

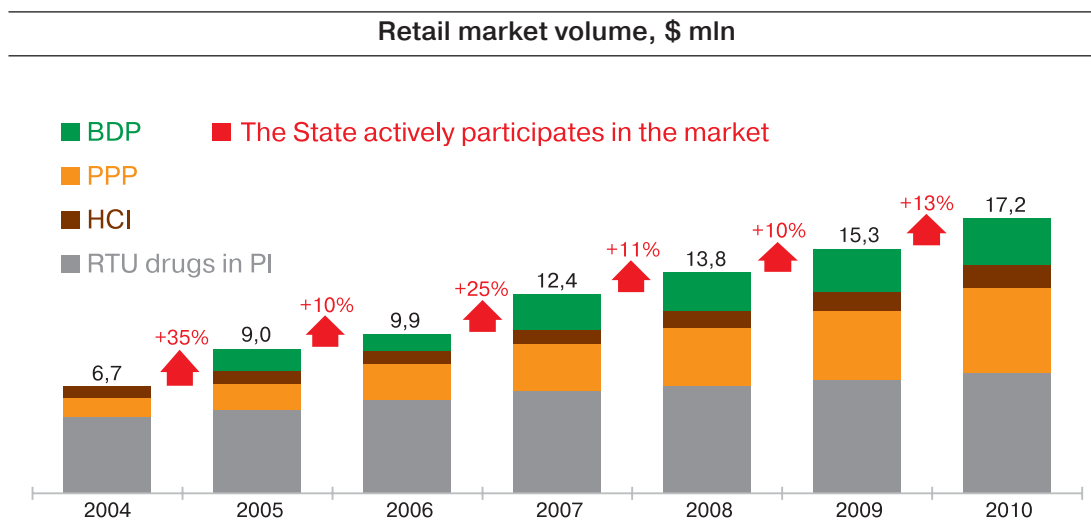
All the abovementioned factors will affect the growth of pharmaceutical market capacity. Tightening Rx drugs sales rules and implementing of fixed price for all drug products may serve as possible negative factors of the State influence on market.

In this case, pharmaceutical market development scenario as estimated by DSM Group can be shown as follows:

## FORECAST OF RUSSIAN PHARMACEUTICAL MARKET DEVELOPMENT

### Long-term forecast for 2010

Diagram 5



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

**Note.** BDP – Beneficiary Drug Provision; PPP in PI – parapharmaceutical products (nutritional supplements, beauty products etc.) in pharmacy institutions (PI); HCl – health care institutions; RTU drugs in PI – ready-to-use drugs in pharmacy institutions (PI).



In 2005 the pharmaceutical market volume and growth rate were mostly influenced by Beneficiary Drug Provision Program. According to the Ministry of Health and Social Development, the cost of drugs provided by distributors under Beneficiary Drug Provision Program amounted to 44.81 billion rubles (1.58 billion dollars). In total, 154.12 mln beneficiary prescriptions were written out; the cost of drugs dispensed by pharmacies on 147.68 mln prescriptions amounted to 38.70 billion rubles (1.37 billion dollars). Thus, in 2005 the total value of drugs provided by distributors was 16% higher than the total value of drugs dispensed by pharmacies under Beneficiary Drug Provision Program.

In spite of all those problems with Beneficiary Drug Provision Program implementation, the beneficiary segment is attractive for both manufacturers and distributors for a number of reasons. Firstly, by occupying this segment that now covers approximately 15% of all pharmaceutical market both manufacturers and distributors may significantly increase their share on the market. Moreover, while the weighted average price per package in 2005 was 28 rubles (1.0 dollar) in commercial sector and 53 rubles (1.9 dollars) in the hospital sector, the same figure in beneficiary segment amounted to approximately 179 rubles (6.3 dollars), which is more than 6-fold higher when compared to the commercial segment.

The beneficiary segment differs from commercial and hospital segments also by proportion of domestic and imported drugs. While in commercial and hospital segments the share of imported drugs amounts to 75%, in value terms the same figure in beneficiary segment is higher and amounts to 88%.

However, manufacturers and distributors have a number of problems that the State has managed to turn to its advantage.

Firstly, a part of drug products was purchased by the State from manufacturers at prices below their commercial value due to price fixing under Beneficiary Drug Provision Program. According to DSM Group estimate, the total State's benefit from price fixation in 2005 amounted to approximately 4 mln dollars.

Secondly, the payment for drug supplies under Beneficiary Drug Provision Program in 2005 was made on a deferred basis (up to 6 months), i.e. the manufacturers and distributors provided commercial crediting to the State for a period of up to six months. This sum includes VAT and customs tax which is paid by distributors to the State during customs clearance of drug products and is returned by the State with the same delay. Taking into account the refinance rate of 12%, the State's benefit from such crediting is approximately 90 mln dollars.

Therefore, while the cost of beneficiary drug supplies was 1.37 billion dollars the State benefited approximately 94 mln dollars, which is equivalent to a significant discount of 7%.

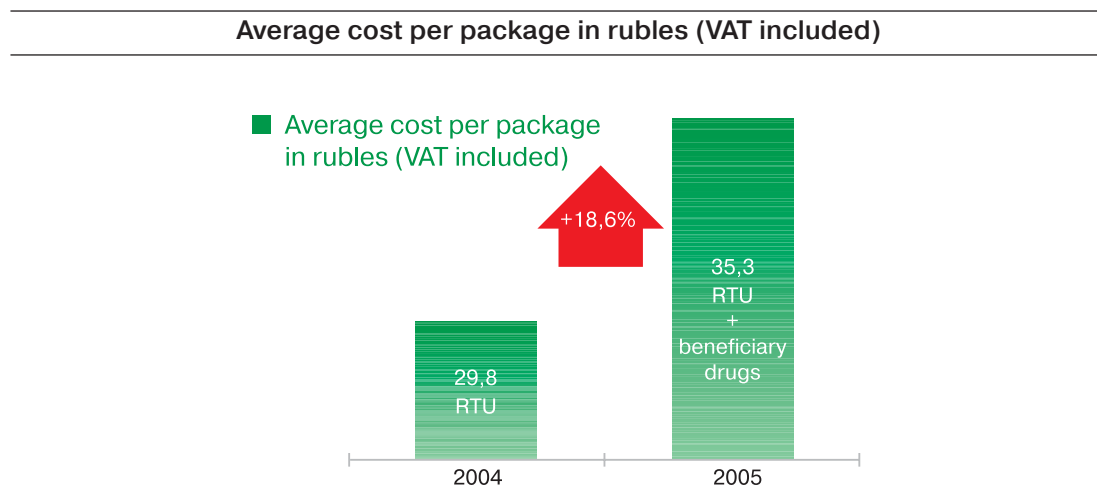
## PRICE INDEX

The growth of pharmaceutical market volume of 35% due to implementation of Beneficiary Drug Provision Program was certainly an important event for all its key players. However, people who are not experts on pharmaceutical market are more curious to know the actual rise in price of drugs they buy in pharmacies.

Answering this question we nonetheless could not omit to mention the Beneficiary Drug Provision Program.

Diagram 6 shows the change in the weighted average cost per package in 2005 compared to that in 2004.

Diagram 6



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

Diagram 6 demonstrates that in 2005 the weighted average cost per package increased almost by 20%. It is, however, mainly due to appearance of new Beneficiary Drug segment where highly effective expensive drugs take a big share. With regard to commercial segment alone, the increase in the average cost per package in retail prices amounted only to 13.2% .

Moreover, increase in weighted average cost was also influenced by changes in the drug sales structure (introduction of new drugs and withdrawal of obsolete drugs). Price index used by DSM Group for price analysis eliminates this bias since it is calculated using a fixed list of trade names <sup>3</sup>.

In 2005 price index for ready-to-use drugs amounted only to 4.7%.

Diagram 7 shows increase in average cost per package of a drug product and price index for ready-to-use drugs in commercial segment in wholesale and retail prices.

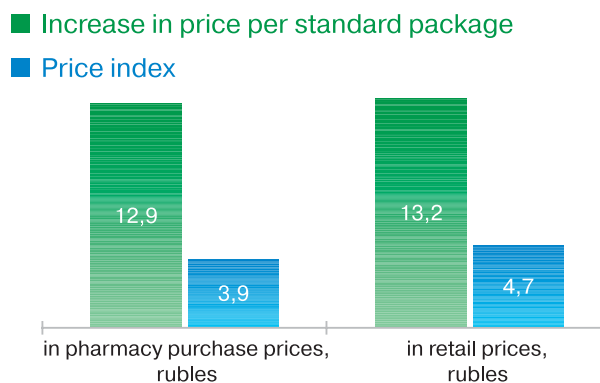
<sup>3</sup> Price index for 2005 was calculated on the basis of all drug trade names listed in the Russian pharmacy sales data for 2004.





Diagram 7

Change in drug prices on commercial pharmacy market, %



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

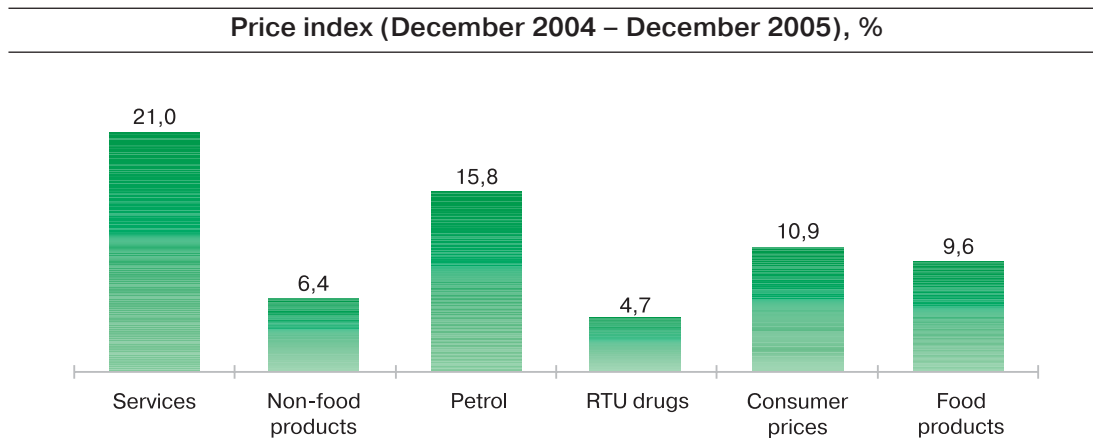
This diagram demonstrates that in 2005 price index value for ready-to-use drugs in commercial sector appeared to be much lower than increase in average cost per package both in wholesale and retail prices. Accordingly, the increase in average cost per package is caused by demand shift toward more high-priced highly effective drugs, rather than by drug price rise.

Therefore, the real increase in drug price in commercial segment did not exceed 5%.

From the perspective of recent discussions on drug price rise a reasonable question arises: isn't 5% too small an issue?

Diagram 8 shows total consumer price index and price indices for individual categories of goods and services.

Diagram 8



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

Diagram 8 demonstrates that increase in price of 20% was observed only for services, while prices on non-food products, including drugs, increased only by 6.4%. Even the highest among non-food products, price index for petrol amounted only to 15.8% in 2005. Thus, increase in drug price by 4.7% appears to be completely adequate with regard to the above data. Therefore, there is no reason for premature concerns.

Note that price index for ready-to-use drugs was, even so, lower than the total price index for non-food products. It can be attributed to the fact that payments by the State for the drugs provided under Beneficiary Drug Provision Program were delayed for up to six months. In such a situation the distributors had to increase turnover by keeping wholesale prices down. Whereas the pharmacies are often establishing retail prices relying on extra charges for retailing rather than target price.

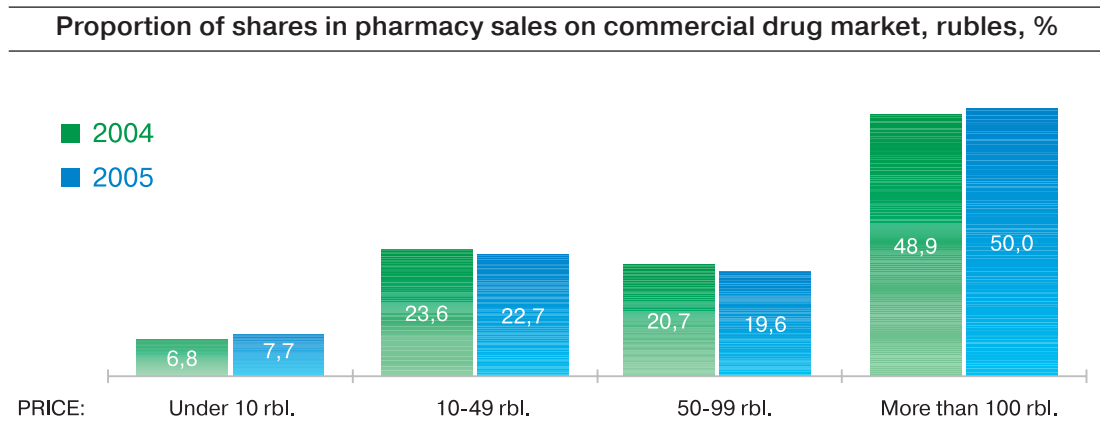
Thus, the rate of retail price increase was also insignificant due to the fact that distributors kept the wholesale prices down while the retailing charges did not change essentially.



● Proportion of price categories on commercial drug market

Proportion of price categories by pharmacy sales on commercial market is shown in Diagram 9.

Diagram 9



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

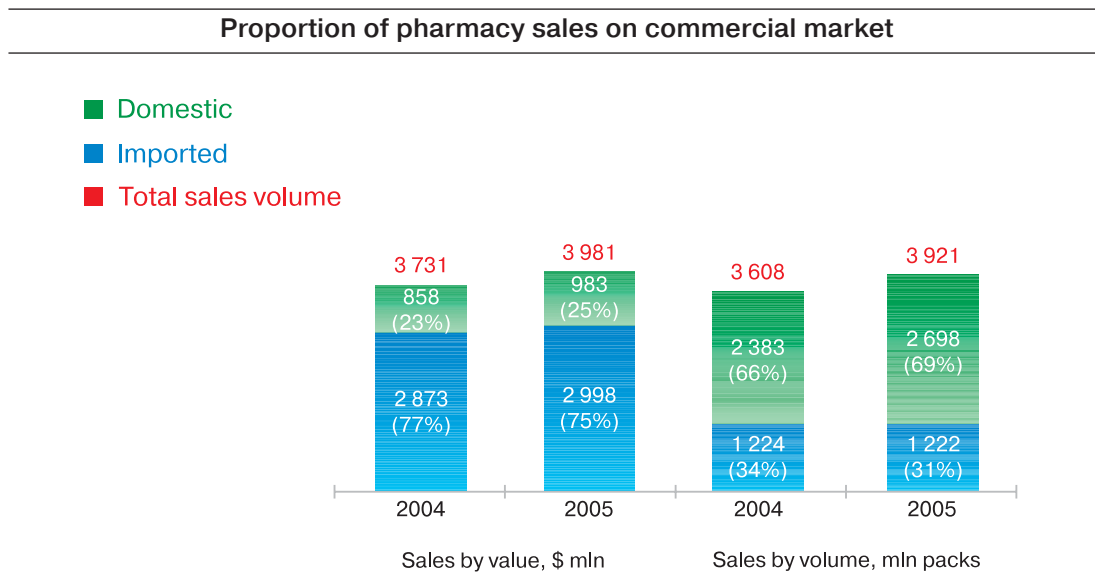
**Note.** that the largest sales are observed for the drugs in the price category above 100 rubles. This price category covers a half of total sales in value terms. Increase in drug sales in both cheapest (less than 10 rubles) and most-expensive (more than 100 rubles) segments is observed, which can be explained by consumer stratification by income level. The growth of personal income is observed in the main part of able-bodied population so that these consumers can afford to buy more effective high-priced drugs. However, certain part of population has to use cheap drugs.

## STRUCTURE OF PHARMACEUTICAL MARKET IN RUSSIA

### Proportion of imported and domestic drugs on commercial market

Proportion of domestic and imported drugs by pharmacy sales is shown in Diagram 10.

Diagram 10



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

The examination of the proportion of domestic and imported drugs on the Russian pharmacy market reveals that the share of domestic drugs in value terms is significantly lower than that of imported drugs. However, in 2006 the share of domestic drugs increased by 2% compared to that in the same period of 2005. At the same time, domestic drugs, which mainly are significantly cheaper, prevail in pharmacy sales when represented in terms of sales volume. Their share has also increased by 3% compared to that in the same period of 2004.

This increase in the share of domestic drugs both in value and volume terms can be explained by more active promotion policy implemented by domestic manufactures.

Increase in the share of domestic products, particularly in terms of volume, will further rise. This will result from partial transfer of manufacturing from foreign sites to the Russian territory and from establishment of new industrial facilities in Russia.

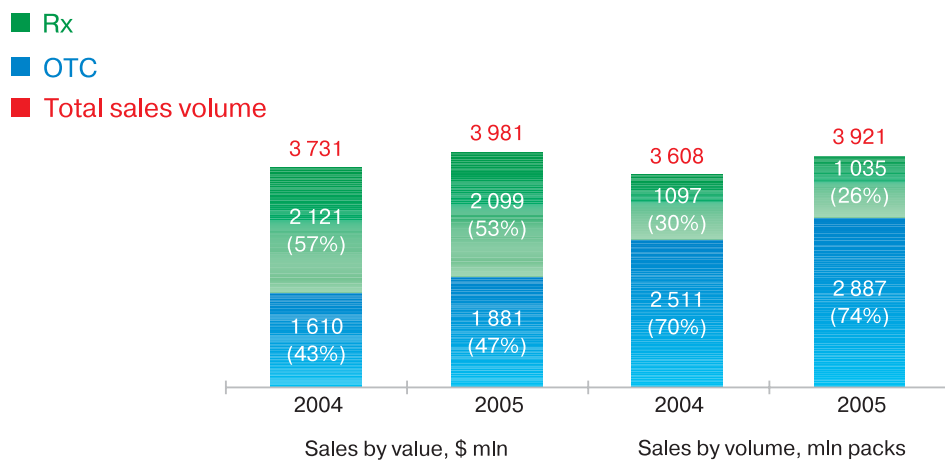
The largest Russian distributors who diversify their business by constructing and purchasing pharmaceutical plants will contribute to increase in production of domestic drugs.

● Proportion of Rx and OTC drugs on commercial market

Proportion of Rx and OTC (over-the-counter) drugs by pharmacy sales is shown in Diagram 11.

Diagram 11

Proportion of Rx and OTC drugs by pharmacy sales on commercial market



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

Note. When calculating shares of Rx and OTC, drugs were distributed officially according to the OTC list<sup>4</sup>. The fact that Rx drugs in pharmacies are often sold without prescription was disregarded.

In 2005 the share of Rx drugs in pharmacy sales in Russia (in value terms) amounts to 53%, which is 4% lower than that in the same period of 2004.

Note that in Russia the share of OTC drugs in terms of volume prevails in drug sales. In 2005 their share increased by 4% compared to that in 2004 and amounted to 74%. Enactment of the Order «On the Procedure of Selling Drug Products» dated December 14, 2005, may enhance this tendency, since this regulation tightens control for Rx drugs sales in pharmacies.

<sup>4</sup> Letter from the Department of State Control of Pharmaceuticals and Medical Equipment № 294-22/24 dated February 9, 2004.

## STRUCTURE OF PHARMACEUTICAL MARKET IN RUSSIA

### Sales structure by ATC groups on commercial market

Proportion of 1st level ATC (Anatomical, Therapeutic, Chemical classification) groups by pharmacy sales in Russia is shown in Table 1.

Table 1

Proportion of 1st level ATC groups by pharmacy sales of ready-to-use drugs in 2004 and 2005					
№	First level ATC groups	Share in sales value, \$ %		Share in sales volume (packs), %	
		2004 г.	2005 г.	2004 г.	2005 г.
1	A: Alimentary tract and metabolism	19,3	19,0	19,7	19,6
2	N: Nervous system drugs	13,7	13,6	21,3	19,8
3	R: Respiratory system drugs	10,8	11,2	11,9	12,4
4	C: Cardiovascular system drugs	12,8	11,1	8,7	7,6
5	J: Antibacterials for systemic use	8,3	8,2	6,8	6,2
6	G: Genitourinary system drugs and sex hormones	7,1	7,9	1,6	1,5
7	[~] Without allocation	5,8	6,7	9,9	12,6
8	D: Dermatologicals	5,2	5,6	9,3	10,2
9	M: Musculoskeletal system drugs	5,1	5,5	4,0	3,6
10	L: Antineoplastic and immunomodulating agents	4,4	4,1	0,7	0,8
11	B: Agents affecting blood and blood forming organs	3,0	2,8	2,0	1,8
12	S: Agents affecting sensory organs	2,0	1,9	2,3	2,0
13	H: Systemic hormonal preparations (excluding sex hormones)	1,4	1,1	0,4	0,3
14	V: Various	0,5	0,7	0,8	0,9
15	P: Antiparasitic products, insecticides and repellents	0,6	0,6	0,6	0,6

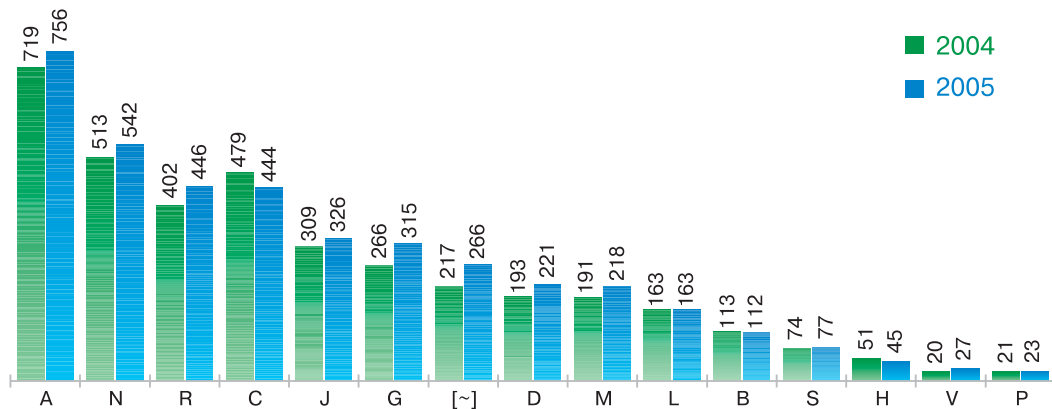
Source: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets the requirements of ISO 9001:2000

Diagrams 12 and 13 show first level ATC groups ranking by share (in value terms) in pharmacy sales volume.

Sales structure by ATC groups on commercial market

Diagram 12

Proportion of 1st level ATC groups by sales on commercial market, \$ mln

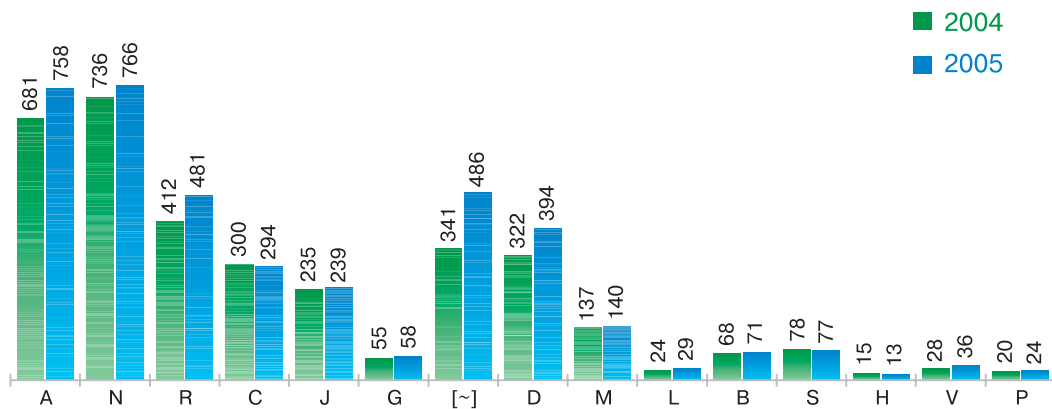


Source: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets the requirements of ISO 9001:2000

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

Diagram 13

Proportion of 1st level ATC groups by sales volume on commercial market, mln packs



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

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

## STRUCTURE OF PHARMACEUTICAL MARKET IN RUSSIA

### Sales structure by ATC groups on commercial market

In 2005 the group [A] «Alimentary tract and metabolism» was the leader in the Russian pharmacy market by sales value. Its share amounted to 19%. The group [N] «Nervous system drugs» was the second place (nearly 14%) and the group [C] «Cardiovascular system drugs» was the third place (11.2%).

It should be noted that such proportion of ATC groups is specific particularly to pharmacy sector.

The growth of pharmacy market volume in value terms in 2005 was mostly contributed by the ATC group «drugs without allocation». Its weighted increase appeared to be the highest. This resulted from large sales of such preparation of this group as Boyaryshnik (Crataegus), whose sales in value terms increased almost 2-fold in 2005 compared to that in 2004. The sales of Cayenne Pepper tincture showed 3.5-fold increase and the sales of Anaferon for Kids grew 2.6-fold.

The weighted increase includes the ATC group's share multiplied by its growth rate. This figure can be presented both in value and volume terms.

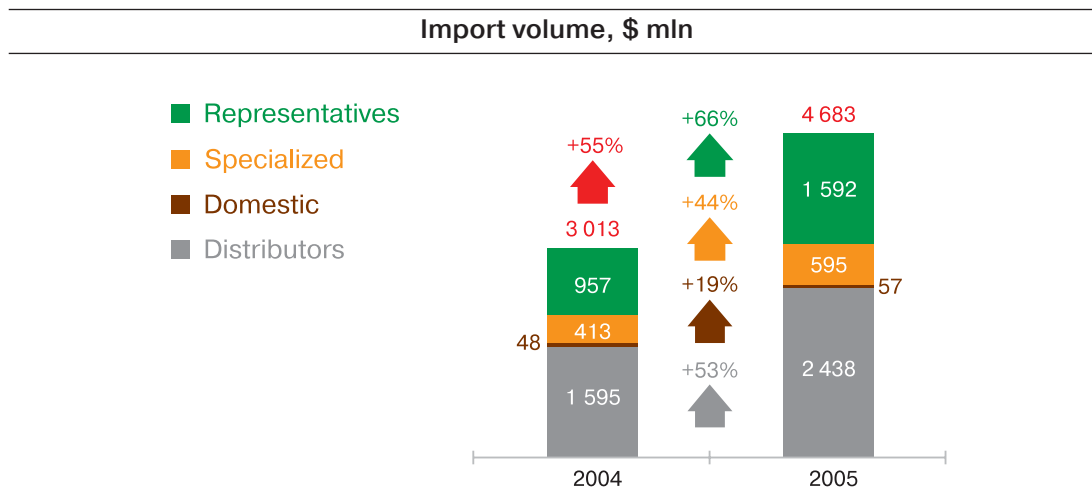
The group [G] «Genitourinary system drugs and sex hormones» was second place by weighted increase in value terms. This was the result of 1.5-fold increase in sales of Viagra in 2005.

The group R: «Respiratory system drugs» (owing to Terpinod, Otrivin and Grammidin) and the group A: «Alimentary tract and metabolism» (Linex and Complivit) also showed high growth rates.



Diagram 14 shows drug import in Russia in 2005.

Diagram 14



Source: Diamond Vision

**Note.** Representatives – representatives of foreign companies; Specialized – direct import companies; Domestic – domestic drug manufacturers; Distributors – distributor companies

Drug import in Russia in 2005 amounted to 4.7 billion dollars (in custom prices <sup>5</sup>), which is 55% higher than that in 2004.

Table 2 shows the shares of different groups of drug importers in Russia (by import value of certain group in 2004 and 2005).

<sup>5</sup> Customs price does not include customs tax (generally 10%), VAT (10%) and specific tax (0.15%).

Table 2

The shares of different groups of drug importers in Russia by drug import in 2004 and 2005			
Ranking	Importers	Shares by import, %	
		2004 г.	2005 г.
1.	Distributor companies	52,95	52,06
2.	Representatives of foreign companies	31,75	34,01
3.	Direct import companies	13,71	12,71
4.	Domestic drug manufacturers	1,59	1,22
	Total:	100	100
	Import, \$ millions	3 013	4 683

Source: Diamond Vision

As Table 2 shows, in 2005 more than 85% of the total drug import is covered by two groups of importers – distributor companies and representatives of foreign companies. It should be noted that the share of representatives of foreign manufacturers in import increased from 31.8 to 34.0%. In 2005 the cumulative share of these groups increased by 1.4% if compared to the same period of 2004.

Table 3 shows TOP 10 distributors by drug import in Russia.

Table 3

TOP 10 distributors by drug import in Russia in 2004 and 2005			
Ranking	Distributor	Share in import of «Distributor companies» group, %	
		2004 г.	2005 г.
1	CV «Protek»	26,4	27,0
2	SIA International	18,8	22,8
3	Rosta	1,7	6,3
4	Biotek	1,9	5,2
5	Apteka-Holding	3,4	3,1
6	Dominanta-Service	3,0	2,8
7	Shreya Corporation	6,7	2,6
8	Katren	2,0	2,3
9	Moron	2,4	2,0
10	Genesis	1,8	1,9
	Total:	68,2	76,0
	Import by the group, \$ mln	1 595	2 438

Source: Diamond Vision

**Note.** The share of Rosta was estimated as cumulative share of Rossib Farmacia and Pharm Tamda 77.

As is shown in Table 3, CV «Protek» and SIA International remain the largest distributors by import in «Distributor companies» group. The other distributors fall behind significantly in ranking.

In 2005 the share of 10 largest distributors-importers in the total import by «Distributor companies» group increased by 7.8% compared to that of the same period of 2004 and amounted to 76%.

It should be noted that many foreign distributors supply their products to Russian distributors through their own drug warehouse in Russia. The Table 3 shows only the data on the cost of volumes of direct product supplies from the foreign manufacturer's plant.

Table 4 shows TOP-20 drug manufacturers by drug import in Russia with regard to all groups of importers.

Table 4

**TOP-20 drug manufacturers by drug import in Russian Federation with regard to all groups of importers in 2004 and 2005**

Ranking		Manufacturer	Shares by import value, \$, %	
2004 г.	2005 г.		2004 г	2005 г.
1	1	Sanofi-Aventis	8,56	7,37
2	2	Berlin-Chemie /A.Menarini/	4,59	4,94
4	3	Novartis Pharma	3,92	4,50
5	4	Novo Nordisk	3,69	3,74
3	5	Gedeon Richter	3,92	3,62
12	6	F. Hoffmann-La Roche Ltd	2,22	3,00
6	7	Pfizer International inc.	2,73	2,94
11	8	Egis	2,31	2,77
7	9	KRKA	2,73	2,65
14	10	GSK	2,02	2,36
9	11	Lek DD	2,50	2,26
10	12	Eli Lilly	2,32	2,20
17	13	Solvay Pharma	1,60	2,09
8	14	Servier	2,53	2,04
15	15	Boehringer Ingelheim Pharma KG	1,85	1,91
20	16	AstraZeneca	1,22	1,89
16	17	Nycomed	1,76	1,87
23	18	Janssen Pharmaceutica	1,02	1,60
13	19	Schering AG	2,10	1,60
22	20	Schering-Plough	1,17	1,41
Total:			—	56,73

Source: Diamond Vision

**Note.** Whereas TOP-20 drug manufacturers' lists for 2005 and 2004 are different, the cumulative share of TOP 20 members for 2004 could not be indicated in this table. Only ranking positions and shares of each manufacturer presented in the reported period are shown for 2004.

As is shown in Table 4, Sanofi-Aventis, Berlin-Chemie /A.Menarini/ and Novartis Pharma are the largest manufacturers in terms of drug import in Russia in 2005. The share of TOP 20 drug manufacturers by import in Russia in 2005 was 56.7%.

## LEADERS AMONG DRUG MANUFACTURERS ON COMMERCIAL MARKET

In 2005, 988 drug manufacturers represented their products on the Russian pharmacy market; compared to 2004 their number increased by 90.

TOP-20 manufacturers by sales are shown in Table 5.

Table 5

<b>TOP-20 ready-to-use drug manufacturers by pharmacy sales in Russia (in value terms) in 2004 and 2005</b>					
Ranking 2005 r.	Manufacturers	Sales value, \$ thousands		Sales volume, packs	
		2004 r.	2005 r.	2004 r.	2005 r.
1	Sanofi-Aventis	205 119	188 651	64385	61 809
2	Berlin-Chemie /A.Menarini/	132 277	154 794	60 127	64 193
3	Pharmstandard	101 548	117 148	313 909	274 648
4	Pfizer International inc.	95 884	116 353	11 375	13 134
5	Gedeon Richter	111 513	109 133	41 566	37 680
6	Novartis Pharma	90 617	96 602	36 362	38 319
7	Lek DD	72 473	90 084	29 740	33 282
8	KRKA	91 996	87 641	38 592	32 745
9	Servier	81 708	87 179	11 078	11 715
10	Nycomed	67 133	77 221	16 907	17 210
11	GSK	63 784	75 613	25 030	30 215
12	Schering AG	48 309	64 789	6 487	7 173
13	Solvay Pharma	59 415	63 933	7 906	7 756
14	Dr. Reddys Laboratories Ltd	48 203	55 509	26 304	30 197
15	F. Hoffmann-La Roche Ltd	48 193	54 839	8 011	8 152
16	Egis	52 057	54 353	21 121	20 989
17	Schering-Plough	44 937	50 762	7 408	8 637
18	Ratiopharm	45 477	46 455	17 518	16 952
19	Janssen Pharmaceutica	43 869	46 316	6 101	6 530
20	Actavis	47 953	45 713	47 619	39 952

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

## LEADERS AMONG DRUG MANUFACTURERS ON COMMERCIAL MARKET



As is shown in Table 5, Sanofi-Aventis was the leader of Russian TOP-20 companies by sales value in 2005. This resulted from merger of two separate companies, Sanofi and Aventis, in 2005. Note that in 2004 cumulative sales of Sanofi and Aventis were 16.5 mln dollars higher compared to that in 2005; Berlin-Chemie /A.Menarini/ moved to the second place.

The concentration of manufacturers on the pharmacy market increased: almost 43% of drug sales value in Russia is covered by the TOP-20 manufacturers, which is 1% higher than in 2004.

The analysis of TOP-20 manufacturers' growth rates suggests the following:

- On the average TOP-20 manufacturers show more rapid growth than commercial pharmacy market (11.0% versus 9.9%);
- Schering AG showed the highest growth of 35%;
- Only three TOP-20 companies showed decrease in sales in 2005 if compared to 2004: Gedeon Richter; KRKA; Actavis.

When analyzing the Russian manufacturers separately, one can see, that Pharmstandard was the third by sales value in 2005, which is 1 position higher compared to 2004; Nizhpharm is the second among domestic manufacturers by sales value (23rd place in 2005; +3 positions). The share of domestic manufacturers in TOP-100 increased as well: 16.4% in 2005 versus 15.4% in 2005.

Interestingly, domestic manufacturers occupy the first 13 positions in ranking by sales volume with their share totaling 38%. The TOP-3 includes: Pharmstandard, Veropharm, Moskovskaya Farmaceuticheskaya Fabrika (Moscow Pharmaceutical Factory). The drug manufacturer Berlin-Chemie/A.Menarini/ appears to be the leader among the foreign companies from the perspective of sales volume, and it occupies the 14th ranking position.

## TOP SALES PRODUCTS

TOP-20 drug trade names by pharmacy sales in Russia are shown in Table 6.

Table 6

TOP-20 drug trade names by sales in Russia (in value terms) in 2004 and 2005						
Ranking		Trade name	Share in sales value, \$ %		Share in sales volume (packs), %	
2004 г.	2005 г.		2004 г.	2005 г.	2004 г.	2005 г.
5	1	Viagra	0,78	1,06	0,04	0,05
9	2	Boyaryshnik	0,58	1,04	2,43	4,36
2	3	Actovegin	0,89	0,89	0,16	0,12
3	4	Mezym Forte	0,85	0,80	0,68	0,56
1	5	Enap	0,93	0,77	0,45	0,33
8	6	Vitrum	0,66	0,73	0,12	0,13
7	7	Essentiale	0,71	0,73	0,13	0,12
4	8	No-spa	0,83	0,72	0,40	0,34
14	9	Teraflu	0,43	0,62	0,21	0,30
24	10	Terpincod	0,38	0,58	0,22	0,26
10	11	Pentalgin	0,57	0,55	0,48	0,30
6	12	Cavinton	0,72	0,55	0,18	0,13
16	13	Xenical	0,43	0,53	0,02	0,02
37	14	Coldrex	0,34	0,50	0,21	0,35
47	15	Linex	0,31	0,49	0,11	0,14
11	16	Preductal	0,54	0,48	0,05	0,04
67	17	Viferon	0,26	0,47	0,03	0,06
26	18	Prostamol-UNO	0,38	0,45	0,04	0,04
13	19	Cerebrolysin	0,43	0,45	0,03	0,03
27	20	Duphaston	0,37	0,40	0,04	0,04
Total:			–	12,80	–	7,73

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

**Note 1.** A number of trade names from Cliphar-Gosreestr are grouped according to the principle of product lines (Coldrex, Vitrum, Fervex, No-spa, Teraflu, Cavinton, Multitabs, Pentalgin, Complivit, Preductal, Viferon).

**Note 2.** Whereas TOP-20 trade names list is different in each half year, the cumulative share of TOP-20 trade names for past half year could not be indicated in this table. Only ranking positions and shares of each trade name presented in the reported period are shown for the previous half year.

## TOP SALES PRODUCTS



In 2005 the TOP-20 drug trade names covered 13% of pharmacy sales value in Russia compared to 12% in 2004.

Viagra (its share is 1.06%) led the TOP-20 drug trade names, Boyaryshnik (1.04%) was the second and Actovegin (0.89%) was the third position.

The most significant changes in Top-20 ranking are observed for Viferon and Linex. This is due to active advertising support and promotion of these drugs in 2005.

The decrease in share and fall in ranking of Enap is the result of its inclusion into the beneficiary drug list. While the sales on commercial pharmacy market for this trade name decreased by 2%, the cumulative sales (commercial market + Beneficiary Drug Provision Program) increased by 50%.

It should be noted that a similar pattern is seen for almost all the trade names in TOP-20 list. Thus, if the drug was included in the Beneficiary Drug Provision Program in 2005 it demonstrated fall in ranking position (e.g. Actovegin, Mezymb Forte, Essentiale, No-Spa) while the drugs that were not included in this program improved their ranking position (e.g. Viagra, Boyaryshnik, Vitrum, Teraflu).



## NEW DRUGS

The term «new drugs» is referred to the trade names that have been registered for the first time in Russia since June 2004 and started their pharmacy sales in 2005. The important condition for drug inclusion in this group is that those trade names were registered in Russia for the first time, i.e. it was not a re-registration.

While during the entire 2004 about 150 new drug trade names appeared in Russian pharmacies, in 2005 this figure amounted to 160. The vast majority of these drugs were introduced to the market in the first half of 2005 (116 trade names). Such tactics allows companies to expect larger profit at year-end.

The Rx drugs cover three-fourths of all new drug trade names and OTC drugs cover the rest one-fourth. Two-thirds of all new drug trade names were introduced to the market by foreign manufacturers and only one-third – by Russian manufacturers.

In 2005 sales of new drug trade names amounted to 14.8 mln dollars in value terms and to 4.7 mln packages in volume terms.

In 2005 the share of new drug trade names in pharmacy sales in Russia amounted to 0.35% in value terms and to 0.12% in volume terms. Their share decreased compared to 2004 (in 2004 it was 0.51% (in dollars) and 0.20% (in packs)). However, these figures are shown taking into account year 2004 sales of Vitrum Cardio (former Vitrum Atherolitin, which has been marketed for a long time and in 2004 appeared under the new name for the purposes of sales growth). The shares of drugs under new trade names in 2004 sales amounted to 0.33% (in dollars) and to 0.16% (in packs) when unaccounted for sales of the abovementioned drug.

Thus, the share of new drug trade names that appeared on the market was insignificant and practically did not change over the last two years. This is an alarming tendency indicating that either the Russian pharmaceutical market is not attractive enough to introduce the new drugs or the period 2004–2005 was not successful for the sales of new drugs. Russian Federation has yet no stable legislation that might allow companies to plan their development in Russia and to forecast development of the pharmaceutical sector. The draft bill «On amendments and addenda to the Federal Law «On Drug Products» approved by State Duma in its first reading, which prohibits physicians to prescribe drugs by their trade names replacing them with non-proprietary names, may serve as example for the abovementioned issue. In case of approval of this amendment, the marketing of new trade names will lose its sense for many companies.

The fact that the majority of new drugs were introduced to the market in the first half of 2005 may also be attributed to this amendment.

Table 7 shows TOP-20 new drug trade names by pharmacy sales value in Russia in 2005. Menopur, Genferon and Vitrum Baby are the leaders among new trade names.



Table 7

## TOP-20 new drug trade names by pharmacy sales value in 2005

Nº	Trade name	Company	INN	Sales value, \$ thousands	Sales volume, thousands packs	Average wholesale price, \$
1	Menopur	Ferring Arzneimittel GmbH	Menotropins	1 617	8	205,3
2	Genferon	Biocad	–	1 212	143	8,5
3	Vitrum baby	Unipharm Inc.	Multivitamins + multi-minerals	1 211	264	4,6
4	Rinzasip	Unique Pharmaceutical Laboratories	Paracetamol + caffeine + phenylephrine + pheniramine	1 148	1 041	1,1
5	Calcemin Advance	Sagmel Inc.	–	870	201	4,3
6	Nazol Baby	Sagmel Inc.	Phenylephrine	816	405	2,0
7	Tyzine Xylo	Pfizer International inc.	Xylomethazoline	661	264	2,5
8	Travatan	Alcon-Couvreur	Travoprost	633	36	17,4
9	Linkus Lor	Herbion Pakistan Private Limited	–	411	598	0,7
10	Lozap	Zentiva A.S.	Losartan	306	52	5,9
11	Gamimun N	Bayer AG	Normal human immunoglobulin	275	1	276,7
12	Chondrollar	Ellara	Chondroitin sulfate	260	37	7,1
13	Gynofort	Gedeon Richter	Butoconazole	245	22	11,3
14	Simvahexal	Hexal AG	Simvastatin	229	25	9,1
15	Nurofen Forte	Boots Pharmaceuticals	Ibuprofen	202	93	2,2
16	Lozap Plus	Zentiva A.S.	Losartan+hydrochlorothiazide	189	29	6,4
17	Tulip	Lek DD	Atorvastatin	175	11	15,5
18	Insty	Herbion Pakistan Private Limited	–	166	149	1,1
19	Loma Lux Psoriasis	Loma Lux Laboratories	–	164	5	30,9
20	Parlazin	Egis	Cetirizine	153	46	3,3

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

Sagmel Inc. has the largest cumulative share (in value terms) among new drugs. In 2005 this company introduced to the market 4 new drug trade names. Their share was 12.3% in value terms when compared to the new drugs of other companies. This is an example of successful introduction of new drugs to the market.

## NEW DRUGS

The maximum numbers of new trade names were introduced to the market by the following companies:

- Bryntsalov-A – 8 trade names;
- Abdi Ibrahim Ilac San. ve Tic. A S, Egis, Loma Lux Laboratories, Sagmel INC, Zentiva A.S, Doctor N and Farmaceuticheskoye predpriyatie Obolenskoe (Obolenskoe Pharmaceutical Enterprise) – 4 trade names each;
- Bayer AG, GSK, Pfizer International inc., Quimica Montpellier S.A., Makiz-Pharma, Sintez AKO – 3 trade names each;
- Gedeon Richter, Glenmark Pharmaceuticals Ltd, Herbion Pakistan Private Limited, Hexal AG and some others – 2 trade names each.

In 2005 the innovative drugs were introduced to the market as well. The term «innovative drug» is referred to the conceptually new (unique) non-proprietary names (NN). In 2005 16 innovative drugs appeared in Russian pharmacy market, see Table 8.

**Table 8**

Innovative drugs in 2005			
Nº	New (unique) NN	New trade name, 2005	Company
1	Acetylsalicylic acid + phenylephrine + chlorphenamine	Aspirin Complex, effervescent powder for oral solution, 3547.5 mg, N 10	Bayer AG
2	Butoconazole	Gynofort vaginal cream, 20 mg/g N 1	Gedeon Richter
3	Valganciclovir	Valcyte coated tablets, 450 mg, N 60	F. Hoffmann-La Roche Ltd
4	Dutasteride	Avodart capsules, 50 mg, N 30	GSK
5	Calcipotriol + betamethasone	Daivobet ointment, 30 mg, N 1	Nycomed
6	Camphor + menthol + nutmeg shell oil + terpineol + thymol + eucalyptus leaf oil	Doktor Mom Cold Rub ointment, 20 g, N 1	Unique Pharmaceutical Laboratories
7	Levocetirizine	Xyzal coated tablets, 5 mg, N 10	Ucb S.A.
8	Lutropin alpha	Luveris lyophilized powder for injections, 75 IU, N 1	Ares-Serono Group
9	Omega-3 triglycerides [EPA/DHA = 1.5/1 - 50%]	Vitrum Cardio Omega-3 capsules N60	Unipharm Inc.
10	Sertaconazole	Zalain cream 2%, 20 g, N 1	Egis
11	Sequifenadine	Histafen tablets 50 mg, N 20	Olainfarm AS
12	Strontium Ranelate	Bivalos powder for oral suspension, 2 g, N 28	Servier
13	Telmisartan + hydrochlorothiazide	Micardis Plus tablets, 80 mg + 12.5 mg, N 28	Boehringer Ingelheim
14	Travoprost	Travatan eye drops, 0.004% 2.5 ml, N 1	Alcon-Couvreur
15	Cefoxitin	Anaerocef powder for injections 1000 mg, N 1	Аболмед
16	Estradiol + drospirenon	Angelic coated tablets N 28	Schering AG

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

Travatan and Gynofort were the most successful drugs among the innovative drugs, they were included in TOP-20 new drug trade names, see Table 8.

In addition to innovative drugs with unique non-proprietary names, the drugs with already existing non-proprietary names are registered under new trade names. It could be noted that certain non-proprietary names were registered under 2 and more new trade names in 2005, see Table 9.

Table 9

**Non-proprietary names that were registered under two and more new trade names in 2005\***

Nº	INN under new trade name in 2005	Number of new trade names	New trade names		
1	Simvastatin	6	Simvahexal Aterostat	Zocor Forte Simvacol	Simvalimit Zovatin
2	Amlodipine	3	Amlotop	Omelar Cardio	Norvadine
3	Atorvastatin	3	Tulip	Liptonorm	Torvacard
4	Indapamide	3	Arindap	Indapressin	Indapamide MV (modified release)
5	Ribavirin	3	Ribapeg	Ribavin	Arviron
6	Fluconazole	3	Fluconazole- Verte	Procanazole	Flunol
7	Cetirizine	3	Parlazin	Zyncet	Zetrial
8	Azithromycin	2	Azithromycin- BI	Zitrolid Forte	
9	Acetylsalicylic acid	2	Aspirin 1000	CardiASK	
10	Betamethazone + salicylic acid	2	Betnovate-C	Diprosalic Lotion	
11	Budesonide	2	Benarin	Budecort	
12	Ornidazole	2	Dazolic	Ornisid	
13	Ofloxacin	2	Ofloxacin- promed	Oflocide	
14	Paracetamol + chlor- phenamine + ascorbic acid	2	Antiflu Kids	FluZiOz-F	
15	Multivitamin	2	Adivit	Vitagamma	
16	Multivitamins + multiminerals	2	Vitrum baby	Megadin Junior	
17	Trimetazidine	2	Antisten	Trimetazide	
18	Phenylephrine	2	Nazol Baby	Nazol Kids	
19	Cefuroxime	2	Kefstar	Proxim	

\* 17 new trade names were registered without non-proprietary names

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

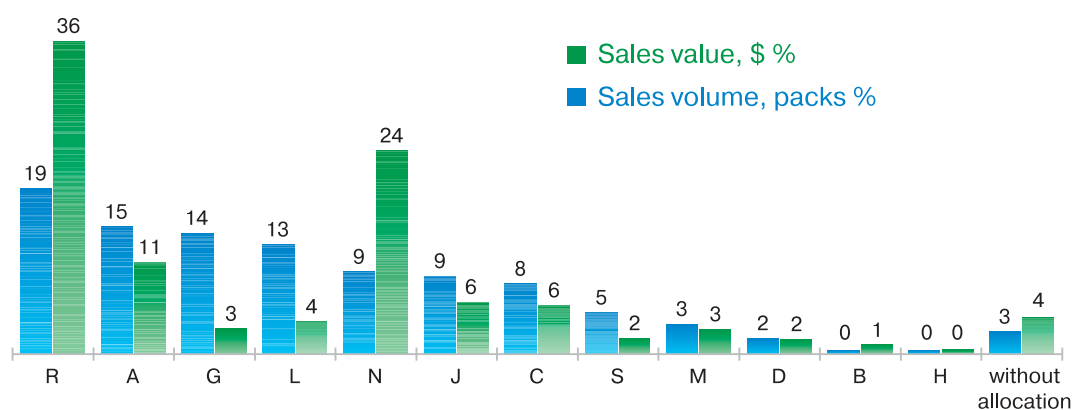
## NEW DRUGS

Obviously companies place their bets on drugs containing these active ingredients relying on growing demand, their effectiveness and development trends in medicine. It is particularly notable that when the license for original drug expires (e.g. for Zocor that contains active ingredient simvastatin) other companies intend to get a share of profit (that previously belonged to one company, the owner of license) from the sales of drugs with previously protected non-proprietary name.

Proportion of new drug trade names by ATC groups and sales, which is shown on Diagram 15, demonstrates tendencies of the progress of the new drugs in 2005 and success of certain drug groups depending on their therapeutic action. The most successful new drugs were presented in the following groups: [R] «Respiratory system drugs», [A] «Alimentary tract and metabolism» and [G] «Genitourinary system drugs and sex hormones».

Diagram 15

### Proportion of new drug trade names by 1st level ATC groups and sales in 2005



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

Not only new trade names are introduced to the market but also new dosage forms of existing drugs (new dose strengths are included here as well). In 2005 more than 20 of such drug products appeared on the market (TOP-10 is shown in Table 10).

Table 10

**TOP-10 drugs with new dosage forms that started their pharmacy sales in Russia in 2005**

Nº	Trade name	Dosage form (new for this trade name)	Company	Sales value, \$ thousands	Sales volume, thousands packs	Average wholesale price, \$
1	Nurofen	Gel for external use	Boots Pharmaceuticals	624	195	3,2
2	Pharmatex	vaginal capsules	Laboratoire Innotech International	212	44	4,83
3	Mastodynon	homeopathic tablets	Bionorica Arzneimittel GmbH	199	26	7,53
4	Dolgit	Gel for external use	Pro.Med.Cs Praha A.S.	68	28	2,44
5	Aflubin	homeopathic sublingual tablets	Richard Bittner AG	25	8	3,16
6	Remens	homeopathic sublingual tablets	Richard Bittner AG	21	6	3,49
7	Sumamed	lyophilizate for infusion solution	Pliva DD	21	1	28,08
8	Neuromidin	solution for intramuscular and subcutaneous injections	Olainfarm AS	14	1	10,32
9	Pumpan	homeopathic sublingual tablets	Richard Bittner AG	13	4	3,23
10	Polyphepan	tablets	Сайнтек	10	5	2,05

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

Some of these drugs with new dosage form covered approximately 50% of sales value for all dosage forms under this trade name in 2005: DOLGIT GEL 5% 20 G N 1, DICLAC GEL 5% 50 G N 1, VINPOCETINE-SAR TABLETS 5 MG N 20 and ZODAC ORAL DROPS 10 MG/ML 20 ML N 1. Thus, these drugs with new dosage forms appeared to be popular among consumers.

A number of new drugs that are introduced annually to the market by companies is quite small. Introduction of new drugs on the market requires companies to make significant efforts and spend resources for development, research, and promotion of new names. Currently, no growth of the share of new drugs is observed within consumption structure. The share of high-priced preparations in the group of new drugs did not increased as well, the weighted average price per standard package for new drug products decreased (from 3.64 mln dollars in 2004 to 3.14 mln dollars in 2005).

## NUTRITIONAL SUPPLEMENTS

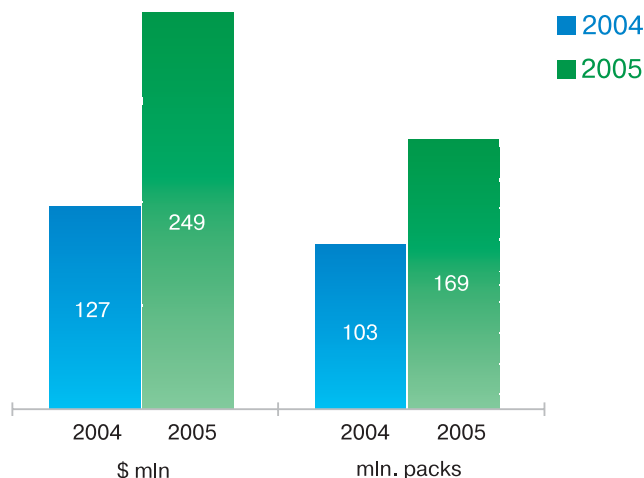
In 2005, the retail pharmacy sales of nutritional supplements (also referred to as NS herein) increased significantly. The number of NS trade names increased by 2.5 thousands and in 2005 exceeded 5 thousands (mostly due to increased number of Russian nutritional supplements). Today, foreign nutritional supplements cover only one-third of the entire NS range. Russian consumers prefer domestic NS.

Nutritional supplements are present on the Russian market for two decades now. Consumers' attitude to nutritional supplements has changed from cautious interest and suspicion to conscious choice. Now nutritional supplements are the part of a common lifestyle and are developing actively.

In 2005, the pharmacy NS sales in Russia totaled 249 mln dollars (169 mln packs). The «two capitals» – Moscow and St. Petersburg covered 26 % of NS sales value. In contrast to drug products NS market develops rapidly and demonstrates significant growth. That is why many drug manufacturers focused their attention on NS segment. Consumers' interest for nutritional supplements grows, which is caused, among other factors, from advertising campaigns and promotion of combined approach to disease therapy. Also, there appeared a tendency to register (or re-register) the OTC drugs as nutritional supplements.

Diagram 16

### Proportion of NS sales volume (in value and in real terms) in Russia in 2004–2005

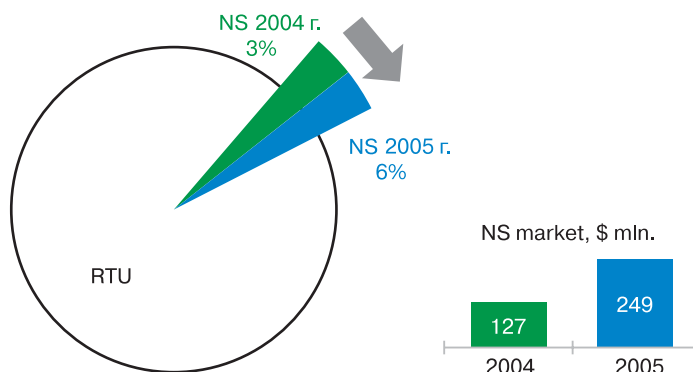


Source: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets the requirements of ISO 9001:2000

The sales of NS increased almost 2 times – by 96% (in dollars) and by 64% (in packs) compared with 2004, see Diagram 16. The share of NS in total retail sales (NS + ready-to-use drugs) in 2005 amounted to 6% (see Diagram 17). In 2005, the weighted average price per NS package increased, which was not attributed to increase in share of foreign and/or high-priced NS. The increase in NS price level slightly exceeded inflation rate in 2005 (approximately 11%).

Diagram 17

Shares of NS and ready-to-use drugs in total retail sales [NS + ready-to-use drugs]

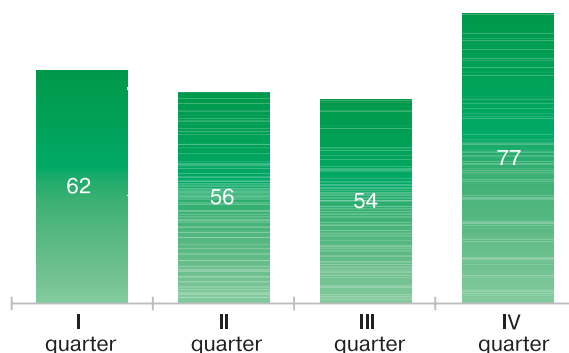


Source: Retail Audit of Russian Pharmaceutical Market by DSM Group, QMS meets the requirements of ISO 9001:2000

In 2005, the main peak of sales was observed in the last quarter of year (its share in NS annual sales value (in dollars) was almost 30%). In general, dynamics of NS sales reflects tendencies of entire pharmaceutical market – decrease in the second and third quarters and significant sales in the first and fourth quarters, see Diagram 18.

Diagram 18

Dynamics of NS sales in Russia by quarters of 2005, \$ mln.



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

In 2005, TOP-20 was characterized by presence of new products: Jedemen slimming capsules, Omeganol, Selen Active, Chernega, Ochanka Zvyozdnaya (Eyebright, Euphrasia officinalis) and Ovesol. NS ranking by sales changed significantly in 2005, see Table 11. In 2005 NS Jedemen slimming (in the new dosage form – capsules) took the leadership (5.72 %), while the leader of the last year – Capilar (5.69 %) came in a close second to it. Development and introduction to the market of successful and convenient dosage form allowed the manufacturer to gain a significant increase in sales. Although Capilar and AlphaVIT moved to 2nd and 3rd positions respectively, they managed to increase their shares of sales compared to those in 2004.

## NUTRITIONAL SUPPLEMENTS

Table 11

TOP-20 NS trade names by sales value in Russia				
2005 г.				
№	Trade name	Manufacturer	\$, %	Compared to 2004 ranking
1	Jedemen slimming capsules	Peking Jedemen Tea sales Centre	5,72	NEW
2	Capilar	Diod	5,69	↓
3	AlphaVIT	Akvion	3,35	↓
4	Viardo	Diod	2,62	↓
5	Bilberry-Forte	Evalar	2,50	↓
6	Iod Active	Diod	1,41	↑
7	Okulist	Diod	1,35	↑
8	Ateroklefit	Evalar	1,33	=
9	Lactofiltrum	STI-Med_Sorb (Supplier Leksir)	1,27	↑
10	Artrovit	Mertsana (manufactured by Kurortmedservis)	1,25	↑
11	Jedemen slimming tea No. 1	Peking Jedemen Tea sales Centre	1,24	↓
12	Omeganol	NNPC GIP (National Scientific and Production Center for Gene-Engineered Drugs)	1,19	NEW
13	Ideal	Industry Jamu Sari Sehat	1,18	↓
14	Red Root	Evalar	1,05	↓
15	Cigapan	Planet of Health	1,00	↓
16	Selen Active	Diod	0,95	NEW
17	Vuka-Vuka	Biocorp Pharmaceuticals	0,93	↓
18	Chernega	Mertsana (manufactured by Kurortmedservis)	0,91	NEW
19	Ochanka Zvyozdnaya (Eyebright, Euphrasia officinalis)*	Evalar, «Helmi» Holding Company	0,90	NEW
20	Ovesol	Evalar	0,89	NEW

\*OCHANKA ZVYOZDNAYA CAPSULES 0.26 N 30 and OCHANKA ZVYOZDNAYA TEA 1.5 N 20 are manufactured by ZAO EVALAR. OCHANKA ZVYOZDNAYA BRIQUETTES 0.5 N 50 is manufactured by HELMI HOLDING COMPANY

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



Table 11

TOP-20 NS trade names by sales value in Russia

2004 r.				
Nº	Trade name	Manufacturer	\$, %	Excluded from TOP-20 in 2005
1	Capilar	Diod	3,83	
2	AlphaVIT	Akvion	3,12	
3	Viardo	Diod	2,73	
4	Bilberry-Forte	Evalar	2,71	
5	Hematogen Russian	Pharm-Pro	2,02	OUT
6	Hudson	Nature Way International, Inc.	1,91	OUT
7	Iod Active	Diod	1,85	
8	Ateroklefit	Evalar	1,56	
9	Jedemen slimming tea No. 1	Peking Jedemen Tea sales Centre	1,37	
10	Ideal	Industry Jamu Sari Sehat	1,35	
11	Red Root	Evalar	1,31	
12	Artrovit	Mertsana (manufactured by Kurortmedservis)	1,30	
13	Morpheus	Mertsana (manufactured by Kurortmedservis)	1,25	OUT
14	Vuka-Vuka	Biocorp Pharmaceuticals	1,23	
15	Lactofiltrum	STI-Med_Sorb (Supplier Leksir)	1,13	
16	Okulist	Diod	1,11	
17	Cigapan	Planet of Health	1,10	
18	Golden seahorse	P.T, Ikona Pharmaceutical Industry Jakarta	1,08	OUT
19	Astin	NPO Istochnik Dolgoletia	1,03	OUT
20	Yu Shu	Yu Shu for Bioconstruction Development	0,89	OUT

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

Domestic NS have stable enough positions, see Table 12. In 2004–2005, the 1st and 2nd positions were held respectively by Diod and Evalar, which increased their relative shares in total sales (cumulative share of these NS manufacturers by sales increased by 2.57 %). The new dosage form – Jedemen Slimming Tea capsules allowed Peking Jedemen Tea sales Centre to occupy their third place in 2005.

## NUTRITIONAL SUPPLEMENTS

Table 12

TOP-10 NS manufacturers by sales value, % \$				
2005			2004	
Nº	Manufacturer	\$, %	Manufacturer	\$, %
1	Diod	12,88	Diod	11,00
2	Evalar	11,15	Evalar	10,46
3	Peking Jedemen Tea sales Centre	7,62	Mertsana (manufactured by Kurortmedservis)	3,05
4	Mertsana (manufactured by Kurortmedservis)	5,05	Pharma-Med Inc	2,87
5	Akvion	4,72	Pharm-Pro	2,65
6	Natur Product	2,58	Ferrosan AG	2,49
7	Pharm-Pro	1,97	Akvion	2,39
8	Ferrosan AG	1,88	Natur Product	2,11
9	Pharma-Med Inc	1,85	Nature Way International, Inc.	1,92
10	NNPC GIP/VIS	1,52	Irwin Naturals	1,57

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

At present there is something provisional and ambiguous in classification of NS, which influences NS ranking by sections. According to the Federal Registry of Nutritional Supplements there are 15 sections classifying NS. The NS category «Nutritional supplements mainly affecting tissue metabolism» is the leader by sales value (29.36 %), this category includes the vast majority of NS, as seen in Table 13. Proportion of NS categories by sales clearly reflects current tendencies of customers' demand for one or another NS, which allows us to determine the most popular trends of their development.

Table 13

Proportion of NS according to NS Federal Registry sections by sales value, \$, %			
NS Registry section	Share in total NS market sales value	Top sales NS with- in corresponding section	Share in total NS market sales value
Section 2. Nutritional supplements mainly affecting tissue metabolism	29,36	AlphaVIT	3,35
Section 9. Nutritional supplements for body weight control	16,47	Jedemen slimming capsules	5,72
Section 8. Nutritional supplements supporting digestive system organ functions	10,42	Lactofiltrum	1,27
Section 5. Nutritional supplements – sources of antioxidants and substances affecting energy metabolism	7,43	Capilar	5,69
Section 14. Various NS	6,69	Okulist	1,35
Section 1. Nutritional supplements affecting function of central nervous system	5,04	Morpheus	0,73
Section 6. Nutritional supplements affecting function of cardiovascular system	4,95	Ateroklefit	1,33
Section 11. Nutritional supplements supporting function of musculoskeletal system	4,71	Artrovit	1,25
Section 12. Nutritional supplements affecting humoral regulation of metabolism	4,55	Red Root	1,05
Section 3. Nutritional supplements – sources of minerals	4,16	Iod Active	1,41
Section 13. Nutritional supplements affecting detoxication and facilitating elimination of foreign and toxic substances	1,85	Ley De	0,63
Section 7. Nutritional supplements supporting respiratory organ functions	1,45	Badger fat	0,19
Section 10. Nutritional supplements reducing risk of genitourinary diseases	1,29	Prolyt super	0,22
Section 4. Nutritional supplements supporting function of immune system	1,16	Dolgolet	0,25
Section 15. Nutritional supplements affecting lactation	0,47	Hipp for nursing mothers	0,21

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

NS pharmacy sales increase from year to year and their range broadens. Most people prefer to buy nutritional supplements in pharmacies (consumer confidence).

At present the popularity of NS in Russia shows significant growth. However, distrust for nutritional supplements in our country is still quite strong since there are non-certified low-quality products, particularly NS, which are sold only through Internet and/or TV-shops.

In order to increase consumer confidence and enhance quality and efficacy of NS, their manufacturing and research should be supported at the State level.

## PROSPECTIVE REGIONAL PHARMACEUTICAL MARKETS IN RUSSIA

In spite of intensive pharmaceutical market growth in Russia in 2005, the competition on the market continuously grows. In order to sweep additional share of the market the members penetrate into neighboring sectors of the market, implement new trade forms and broaden their range of services. The territorial expansion is one of the methods of struggle for market. This means entry into the regions of Russia that have some promising features and are not yet controlled by major market players.

What regions of Russia are most attractive for pharmaceutical market members? In order to answer this question the combined analysis of subjects of Russian Federation was conducted by the following three parameters:

- Pharmaceutical market volume;
- Pharmaceutical market growth rate;
- Drug consumption per capita.

The figures for each region were compared to the average values for Russia (unaccounted for Moscow).

The regions presented below are those that are attractive with regard to all three parameters, including market volume:

Ekaterinburg region	Altai territory
Republic of Bashkortostan	Novosibirsk region
Chelyabinsk region	Khabarovsk territory
Omsk region	Irkutsk region
Khanty-Mansi autonomous district	Republic of Sakha (Yakutia)
Samara region	Kemerovo region
St. Petersburg	Moscow region
Leningrad region	Moscow City

Naturally, high market attractiveness often suggests significantly higher competition level, which in turn reduces chances of success. It concerns, in the first place, Moscow and St. Petersburg, however, market concentration is high enough in the number of other regions of Russia that appeared to be the leaders by all three parameters.



What leading regions are the most accessible? According to DSM Group estimates, relatively low market concentration is observed in the following subjects of Russian federation:

Khabarovsk territory	Samara region
Chelyabinsk region	Republic of Sakha (Yakutia)
Omsk region	Leningrad region
Republic of Bashkortostan	Khanty-Mansi Autonomous Area

While being attractive markets these regions have the greatest potential for their development.

The regions listed below failed to meet two criteria: They feature relatively low drug consumption per capita and low pharmaceutical market growth rate.

These regions include:

Volgograd region	Ulyanovsk region
Republic of Kalmykia	Republic of Mordovia
Lipetsk region	Ryazan region
Voronezh region	Tula region
Belgorod region	Republic of Altai
Krasnodar region	Chita region
Republic of Adygeya	Republic of Buryatia
Kurgan region	Kaluga region
Tyumen region (except Khanty-Mansi autonomous district and Yamalo-Nenets autonomous district)	Kabardino-Balkarian Republic
Republic of Mariy-El	Karachaevo-Cherkessian Republic
Chuvash Republic	Republic of North Ossetia – Alania



## EVENTS ON PHARMACEUTICAL MARKET

### Pharmacy networks

Development of Russian pharmacy networks is progressing systematically, including extension of their representation in the regions of Russian Federation. In 2005 one of the leading participants of the retail sector of pharmaceutical market – the pharmacy network «36.6» has opened its pharmacies in several new regions, thus, by the end of 2005 the company owned 445 pharmacies in 19 regions (in 64 towns) (in January 2006 the number of pharmacies increased to 482). In 2005 consolidated sales of the company amounted to more than 300 mln dollars, which is 42% higher than that in the last year. The debt of the Pharmacy Network «36.6» amounted to 109 mln dollars in 2006.

Another large company – pharmacy network «Pervaya Pomosch» started a franchising program. Franchise cost will be 1.5–2.5 mln rubles (depending on Agreement term – from 5 to 10 years), the royalty will be 5%. Franchisees are required to have own or rented for not less than 5 years premise and to implement open trade regimen in the pharmacy (pharmacy supermarket). In return the partner acquires a right to use their trade mark. In addition, «Pervaya Pomosch» will perform renovation of premise, provide all the necessary shop equipment and cover all advertising costs. With the help of this program the network plans to open approximately 50–70 pharmacies in the regions. In the first 8 months of 2005 the sales value of the pharmacy network «Pervaya Pomosch» was almost 966 mln rubles, which is 30% higher than that in the same period of 2004. At present the network has 81 pharmacies, including 34 pharmacy markets. In 2006, extension of the network up to 110 pharmacies is planned, with priority given to Moscow branch – in which it is intended to open another 20 pharmacies.

The largest Russian pharmaceutical distributor – CV «Protek» intends to invest approximately 100 mln dollars in its pharmacy network «Rigla». The company intends to increase the number of «Rigla» retail outlets up to 500 by 2009 (i.e. annual increase in the number of pharmacies will be 50%). In the next year the number of «Rigla» pharmacies should grow to 320, and its sales should exceed 130 mln dollars. In addition, in 2006 «Rigla» company will open more than 100 pharmacies that will work under the Beneficiary Drug Provision Program. These pharmacies will be separated into the special business sector with its own structure which will operate as separate legal entity – «Rigla – social pharmacies».

The owners of the pharmacy network «Pharmakor» carry negotiations concerning the sale of that business. Purchaser will immediately gain the control over approximately 15% of St. Petersburg pharmaceutical market. The price of this network is estimated as 60–70 mln dollars. According to preliminary estimate, the sales value of this company in 2005 may amount to 135–140 mln dollars. Currently, «Pharmakor» controls approximately 200 retail outlets. Profitability amounts to 6–12% (according to own data of Pharmakor). 60 new retail outlets are planned the next year. The company estimates its share in the St. Petersburg market at 35% and plans to increase it to 45% in 2006.

Total sales of municipal pharmacies in Moscow decrease, however, it is expected that Moscow pharmacy network State Unitary Enterprise «Stolichnye apteki» will contribute to the persistence of the state pharmacies' participation in the market and increase of their competitive ability. At present «Stolichnye Apteki» network comprises 289 outlets. According to DSM Group data, the share of pharmacy network «Stolichnye apteki» amounts to approximately 15% of Moscow market with annual sales value of 1.5 billion dollars.

## Manufacturers

Several projects on domestic manufacturing of insulin are started in Russia. According to preliminary data, the Russian insulin market sales value will amount to approximately 185 mln dollars in 2005, while its annual growth rate amounts to 25–30%. Foreign manufacturers (Novo Nordisk, Eli Lilly and Sanofi-Aventis) cover about 98% of the market; «Bryntsalov A» (0.5%) and Institute of Bioorganic Chemistry of Russian Academy of Sciences (0.1%) are the only domestic insulin manufacturers. The government purchases are the main channel of sales, which covers approximately 67% of the market sales value (125 mln dollars); retail and hospital sales values are estimated at 57 mln dollars.

The first companies to announce the start of production of Russian insulin were «Biotek» group<sup>6</sup> and Chinese pharmaceutical company Tonghua Dongbau. The second company that started construction of insulin production plant was Polish Bioton. «Bioton Vostok» (representative in Russia) plans to set the plant to work by the end of 2006. The third company to enter this sector was «Pharmstandard» Holding<sup>7</sup>. Insulin manufacturing has already been constructed at the plant that belongs to «Pharmstandard» in Ufa, and in the nearest time insulin production will start.

Russian pharmaceutical industry development goes on in accordance with the world tendencies. In February 2006, the pharmaceutical enterprise that was a greenfield project, designed in compliance with international GMP standards, will start working in Novosibirsk. This will be a full-scale plant – complete cycle, beginning with new drugs' development process and following through to drug trials and manufacturing.

Development of Russian pharmaceutical holdings is also progressing. «Biotek» has purchased «Marbiopharm» plant from «Pharmstandard» group of drug manufacturers belonging to British Millhouse Capital company.

The sales of Russian drug manufacturers keeps growing. For instance, in 2005 the sales value of «MAKIZ-PHARMA», which also includes «Skopinpharma», was 37.3 mln dollars. Moreover, the company intends to expand its manufacturing capabilities by construction of logistic complex with the capacity of 6 thousands pallet places.

Thus, the Russian pharmaceutical market still is attractive for foreign investors, e.g. Indian company – JB Chemicals&Pharmaceuticals opens its division in Moscow. This is a stride towards increasing the share of the company in the Russian pharmaceutical market, since 45% of the income the company earns from Russia and Commonwealth of Independent States.

<sup>6</sup> Biotek group includes the 5-th largest pharmaceutical distributor company in Russia (8 branches and 12 affiliated companies), manufacturing enterprises («Biodez» located near Moscow, Moscow MFPDK, «Marbiopharm» (Ioshkar Ola), Biosintez (Penza)) and a retail network comprising 152 pharmacies and retail outlets.

<sup>7</sup> «Pharmstandard» group was created in 2004 after Russian actives of American company ICN Pharmaceuticals Inc. were purchased by Millhouse Capital company. At present, the group includes «Pharmstandard-Oktyabr» (St. Petersburg), «Pharmstandard-Leksredstva» (Kursk), «Pharmstandard-Tomskkhimpfarm» (Tomsk), «Pharmstandard-Ufavita» (Ufa) and «Pharmstandard-Fitopharm-NN» (Nizhny Novgorod).

## EVENTS ON PHARMACEUTICAL MARKET

### Manufacturers

Western companies invest their capital not only in opening their representative offices, but also to establish their own manufacturing facilities in Russia (e.g. KRKA, Gedeon Richter etc.). In January 2006, Servier announced opening of its own manufacturing facility in Russia. A new drug production complex is to be constructed in Moscow region. The investments volume for the first stage of the complex (named «Serdix») will amount to 45 mln dollars. Planned capacity of the first stage of the complex will amount to 60 mln packs per year. A trial batch of drugs will be produced by the end of 2006, and commercial manufacturing will start in May 2007.

The largest Russian pharmaceutical distributor, CV «Protek», announced its plant – «Sotex», which is one of the largest drug production facility in Moscow region. The investment for this enterprise amounted to 46 mln dollars.

Russian companies also aspire to extend their geographical representation; for instance, «Nizhpharm» decided to open their representation in the Republic of Uzbekistan. «Nizhpharm»' representative in Uzbekistan will be the 4th regional office of the company along with the currently working offices in Ukraine, Kazakhstan and Latvia.

### Distributors

Russian distributors continue creating vertically integrated holdings. Thus, «SIA International» has purchased the controlling block of shares in one of the largest domestic pharmaceutical manufacturer – Saransk «Biokhimik» and also substantial shareholdings of the «Sintez» (Kurgan) and «Biosintez» (Penza). This deal cost the company \$26.5 mln dollars. The amount of the «Biosintez» shares was further increased up to the controlling block and then sold to another pharmaceutical holding – «Biotek» company.

Top-managers of another large Russian pharmaceutical distributor, «Katren», have bought out their stocks from EBRD in order to sold them further to an industrial investor.

One of the largest Russian distributors, «Apteka Holding», was purchased by British pharmaceutical holding Alliance UniChem. At the moment UniChem is in merger process with British pharmacy network Boots.

All distributors who took participation in the Beneficiary Drug Provision Program significantly increased their sales.





## Federal Programs

The realization of the National Program «Zdorovye» («Health») started on January 1, 2006.

This program has primarily preventive profile and is focused on the promotion of health in working population, children and women. The project provides for substantial increase of payments in primary care segment. Supplying primary care facilities with complex medical equipment is covered by this program as well. In 2006–2007, 30.5 billion rubles will be allocated to money payments for family doctors, primary care physicians, pediatricians and nurses according to quality and volume of medical services provided. In 2006, federal budget payments under this program shall be 12.8 billion rubles, while in 2007 this payment is expected to be 17.7 billion rubles. Next year, 200 mln rubles will be allocated for training and retraining of physicians of abovementioned categories, and in 2007 this sum will amount to 330 mln rubles.

In 2006, the financing of the Federal Beneficiary Drug Provision Program <sup>8</sup> will come to more than 30 billion rubles.

Last year the sum that the Russians spent for paid medical services amounted to more than 82 billion rubles; amount spent for the drugs exceeded 162 billion rubles. Government expenses on healthcare were almost 480 billion rubles.

Total number of companies that were entitled to supply and dispense drugs under the Beneficiary Drug Provision Program in 2006 according to the results of the open tender was more than 90 pharmaceutical companies. Seventy five tenders for each separate or for several subjects of Russian Federation combined in one «lot» were held simultaneously. In total, more than 120 federal and regional pharmaceutical organizations have applied for participation in the competition. Twenty three federal-level and 69 regional-level companies were finally selected.

In 2005, the largest drug suppliers were CV Protek, Biotek, SIA and Rosta. The same companies will remain the principal players in the beneficiary drug segment in 2006.

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<sup>8</sup> The Beneficiary Drug Provision Program includes: Citizens entitled to receive beneficiary drugs – 14,689,824 persons (as of February 1, 2006); wholesale pharmaceutical organizations – 133; healthcare institutions – 22,090; doctors – 13,106; pharmacies – 10,042; pharmacy sales outlets – 12,226. In 2005, the federal budget allocated 51 billion rubles for realization of this program. Drug supply in December 2005 amounted to 40.5 billion rubles (data as of December 1, 2005). The average cost of prescription was 184 rubles (as of March 2005), 191 rubles (as of June 2005), and 245 rubles (as of November 2005). The listing of beneficiary drugs includes 2346 items. (Data from the report of E.A. Telnova dated December 21, 2005)



**To provide comprehensive, high quality and timely marketing research and full advertising support to the companies of 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

- Monthly retail audit of the Russian pharmaceutical market (meet ISO 9001:2000 requirements), which you can see in 25 working days
- Monthly analysis of market capacity and tendencies
- Competitive drugs analysis
- Monitoring of drug sales by distributors
- Drugstores surveys
- Marketing planning

## ADVERTISING

- Design and corporate identity creation
- Souvenirs for pharmaceutical sphere
- Printing
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- Outdoor advertising
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