

PHARMACEUTICAL MARKET IN RUSSIA

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Analytical Report
Russia's Pharmaceutical Market
Results 2009

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INTRODUCTION

DSM Group is the leading marketing agency on the pharmaceutical market in Russia. It is part of the European Society for Opinion and Marketing Research (ESOMAR). The retail audit of the Russian pharmaceutical market conducted by DSM Group is ISO 9001:2000 compliant.

A large-scale study of the Russian pharmaceutical industry backed by regular market monitoring is among the latest implemented projects.

The findings of this study are shown in this analytical survey, which encompasses the main trends and all sectors of the pharmaceutical industry, such as manufacturing, distribution, and retail business.

The survey report is targeted to international audiences.

1. Russian Pharmaceutical Market and Russia's Economy

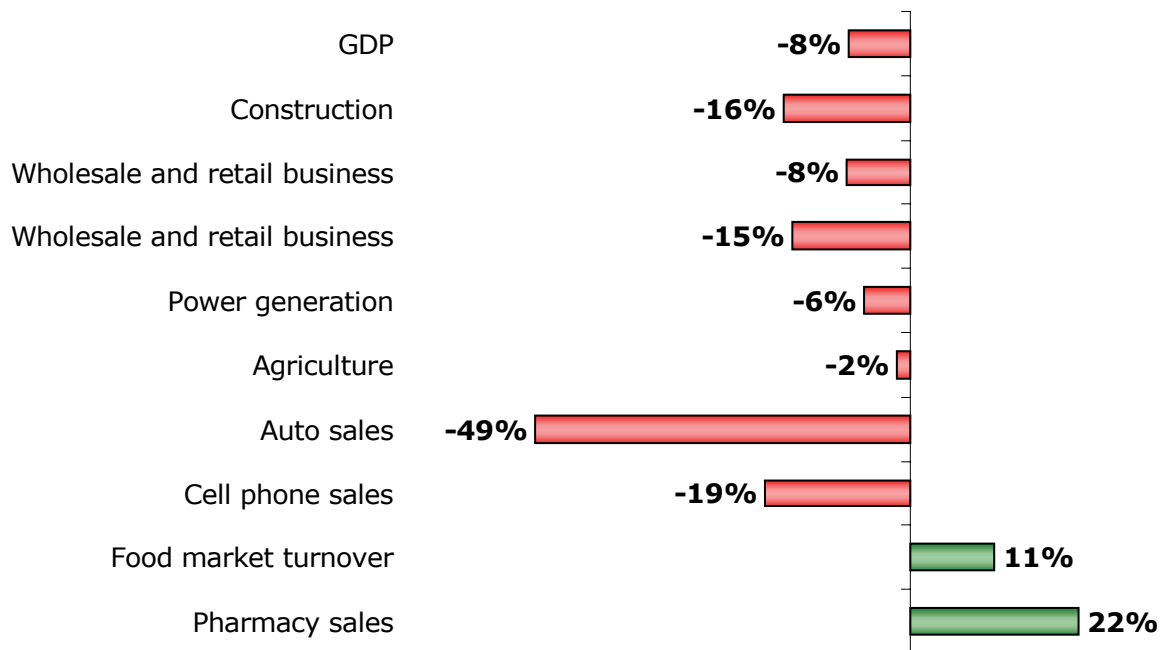
The 2008-2009 financial and economic crisis affected Russia significantly primarily bringing down the country's GDP. According to preliminary estimates, Russia's GDP amounted to Rbs 39,016.1 billion in current prices in 2009. Its real-term amount stood at 92.1% as compared with 2008.

The Russian economy is based on exports of raw materials. It was clear that the export revenue would drop amid the crisis; however specific numbers were still anyone's guess. The released statistics reduced hope for even the most die-hard optimists. The proceeds from exported oil and gas, which account for the bulk of fiscal revenue, fell more significantly than expected. Russia's exports stood at \$301.6 bn in 2009, down 35.5% as compared with 2008; imports fell 37.3% to \$167.4 bn. Naturally, this was further reflected in the trade balance, where the surplus dropped 33% as of the year-end to \$134.3 bn. Similar to the previous years, the raw material-based exports model remained intact, and the exports mostly included fuel and energy products. In other words, little has changed in the structure of Russia's trade balance; Russia just sells less for less money.

Given the declining key indices of the Russian economy, the growth of its pharmaceutical market came as a surprise.

Chart 1

Real GDP Index and Gross Value Added Index by Economic Activity



Source: DSM Group. ISO 9001:2000, State Statistical Committee

Amid the decline in other segments and markets, the 22% increase in consumption of pharmaceuticals looks impressive. To compare, the auto sales fell 50%, while the wholesale and retail businesses dropped by 8% overall as compared with 2008.

The consumption of pharmaceuticals is one of the few industries where sales were up in 2009 as compared with 2008. Consumers didn't tighten up their wallets amid the raging crisis. Health is a part of life where people tend not to be frugal.

Charts 2 and 3 show the dynamics (in retail prices) of Russia's pharmaceutical market during 2008-2009.

Russia's pharmaceutical market is comprised of two main segments, commercial and state-owned ones.

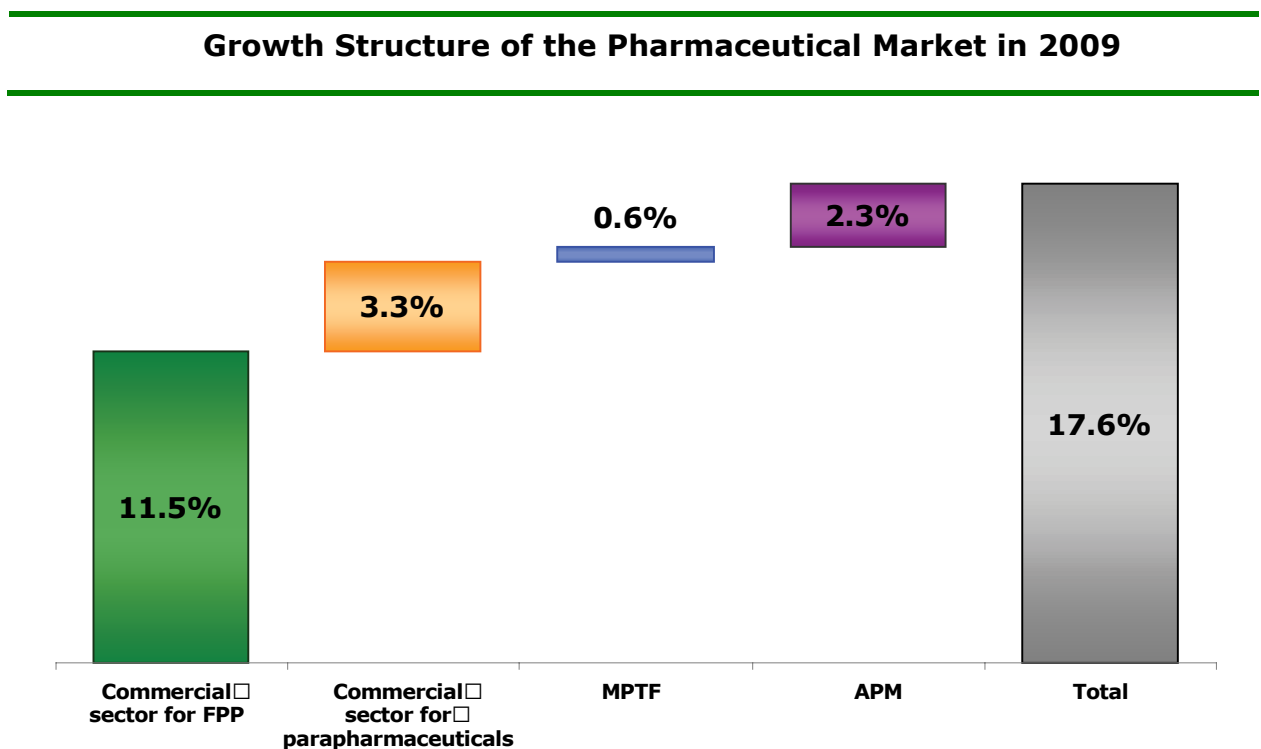
The commercial segment of the pharmaceutical market includes pharmacy-based sales of the pharmaceuticals and parapharmaceuticals (beauty and health products, non-medicinal products) not including sales under the Program for Additional Provision of Medications (APM).

The state-owned segment of the pharmaceutical market includes pharmacy-based sales of the Finished Pharmaceutical Products (FPP) under the APM Program and sales through the medical and preventive treatment facilities (MPTF).

Part of the reason for this was that despite the crisis, the government did not cut the social expenditure items. Conventionally, retired people are considered to be one of the main medication consumer categories. During the course of 2009, the state has on several occasions increased the base part of the retirement benefits: by 8.7% on March 1 and by another 31.4% on December 1. The insured part of the retirement benefits was up by 17.5% from April 1, and it further increased by 9% on August 1. Therefore, the growth in the amount of retirement benefits has notably outpaced the increase in consumer prices, including the medication prices.

Chart 4 shows the input of various segments into the overall growth of the pharmaceutical market.

Chart 4



Source: DSM Group. ISO 9001:2000

The commercial segment of medications shows the greatest growth rates at 22% as compared with 25% in 2008. However the fact that this indicator is high has more to do with price increases for medications than with increased natural consumption. The crisis aftermath with regard to the pharmaceutical

market did show itself in a six-percent decrease in the number of sold packages. Meanwhile, inflation rates were the highest over the past few years at 16.2%. With due account taken of the growth beginning in 2008 (from January 2008 through December 2009), prices were up by 30%, whereas historically this number has never exceeded 3% or 4% annually. Total sales in 2009 within the commercial segment amounted to about Rbs 290 bn, or \$9.1 bn.

The “pharmacy parapharmaceuticals” segment showed lower growth 2009 at 15%. In the course of the crisis, spending on these beauty and health items was reduced. The selective cosmetics represented exclusively by pharmacies (Vichy, Lierac, etc.) suffered more damage than any other segment. This subgroup’s sales remained unchanged as compared with 2008.

The state is an active player on the pharmaceutical market, and this concerns not only its role in legislative regulation, but also in co-financing the consumption of the pharmaceuticals. In 2009, the share of the state-owned funds on the market amounted to approximately 25%. Restructuring the APM Program and execution in full of the planned budgets makes it possible for the APM segment to grow on a par with the market growth. The financing of MPTF is planned with slower growth. Thus overall the state segment of FPP increased the least in 2009 at 11%.

At the start of 2009, the key question was how the global economic and financial crisis would affect the evolution of the pharmaceutical market. With growth seen across the three major segments we can safely say that the market and its participants stood the test and went through 2009 without particularly heavy losses. However it should also be noted that the market has yet to overcome all hardships, and 2010 will be a year of shaping up the “new” pharmaceutical market against a backdrop of more legislative regulations.

The initiatives launched by the state in 2009 were of unprecedented nature. One of the first actions initiated by the government was an attempt to curb the inflation for medications. Hence, the price growth stalled in April-May. However the real reason for this was stabilization of the bi-currency basket strengthening of the ruble.

The main draft laws and regulations discussed during the course of 2009 included the Law on Circulation of Medical Substances and Resolution by the Russian Government On Improved Government Regulation of Prices for Vital and Essential Medical Substances.

The positive aspects of the draft law on Circulation of Medical Substances include cancellation of substance registration, permanent validity of registration certificates (currently the registration is valid for five years), etc. However there are innovations which will adversely affect the pharmaceutical market. An example of such a change could be found in separating the analysis of scientific validity and viability of conducting clinical studies from the issuance of authorization for undertaking such studies, as well as separating the analysis of efficiency and safety of medical substances from the registration process. This will entail an increase in the time it takes to go through all phases of taking a medication to the market. However, the enactment of the law has been put off to September 1, 2010 and will not, therefore, significantly affect the participants this year.

The situation with the Resolution of the Russian Government On Improved Government Regulation of Prices for Vital and Essential Medical Substances has somewhat cleared up: they have adopted the single method for price registration and forming the marginal wholesale and retail mark-ups for medications listed among vital and essential medical substances. It should be noted that the regions used to have regulations governing the mark-ups for such medications. However it was very difficult to verify and track the compliance. The goal of this document is to make the product distribution chain for vital and essential medical substances more transparent and controllable. Therefore, the wholesale factory prices, which are to be registered by the manufacturer, will become the basis for forming prices for the end user. The wholesale operators will only be able to distribute vital and essential medical substances upon availability of a price approval protocol.

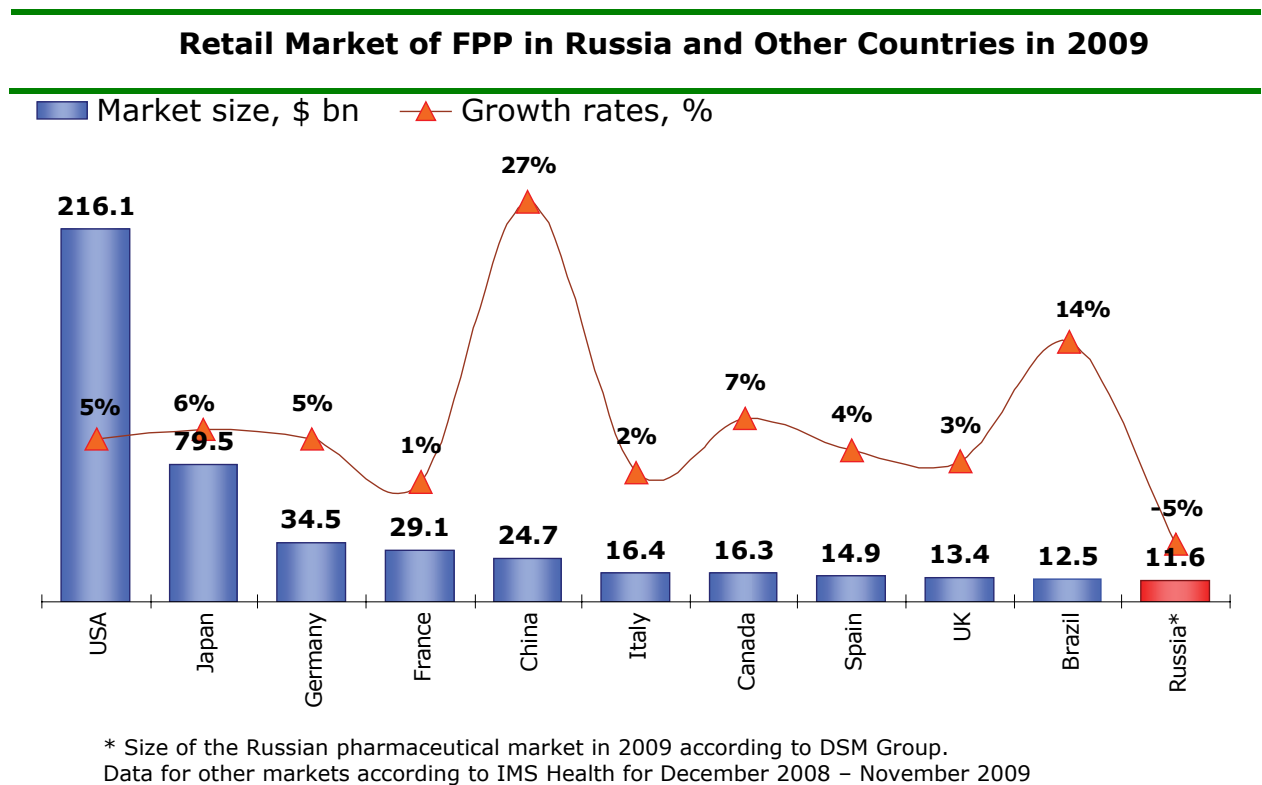
The legislators aren't going to stop short of doing more in this regard. Thus, one of the proposals made by the Ministry of Industry and Trade introduces changes to the law on medical substances: they suggest allowing the sales of OTC pharmaceuticals by retail chains. The issue of regulating the relationships between the pharmaceutical companies (manufacturers) with the medical doctors has taken on a whole new dimension. The new draft law calls on to regulate the business of medical representatives with regard to promote medications through the doctor's offices.

Russian Pharmaceutical Market vs. Global Pharmaceutical Markets

Russia's market is only a small fraction of the global pharmaceutical market. Our company constantly follows the dynamics of the Russian market as compared with other international markets.

Chart 5 shows the ratings of several countries with regard to the size of the FPP retail market in 2009.

Chart 5



Source: IMS Health, DSM Group. **ISO 9001:2000**

Note: Pharmacy market for FPP = commercial segment of FPP + APM

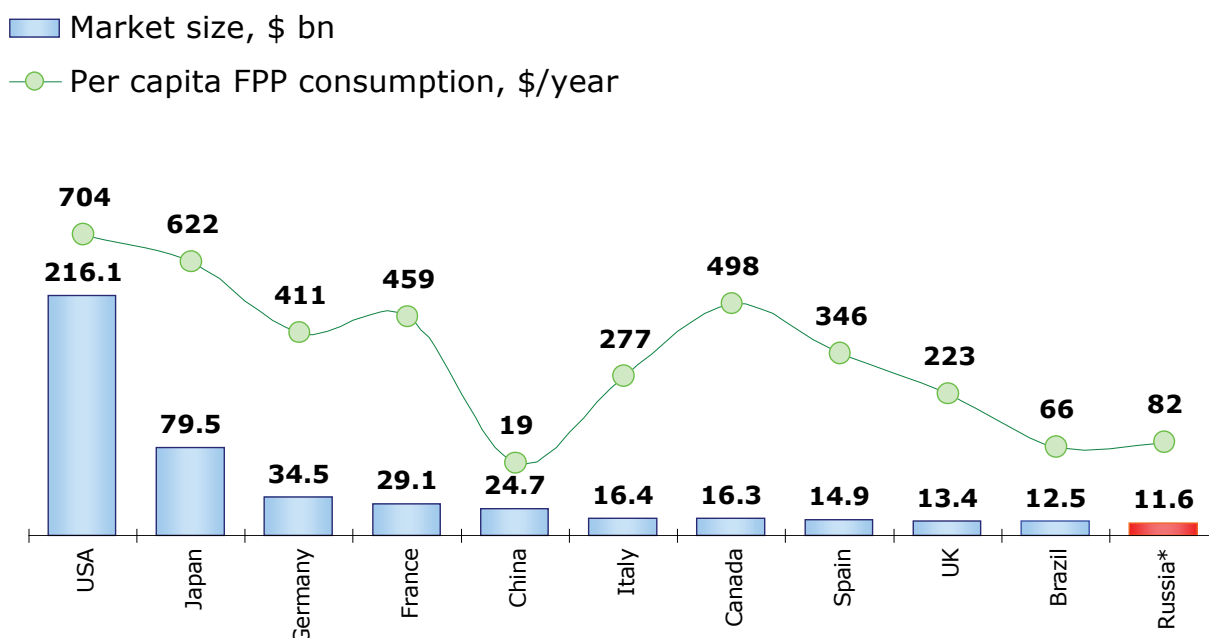
As of the end of 2009, the global sales of medications were up 5% at \$280 billion. The share of Russia in this amount is negligibly small and is as low as 1.4%.

The global market grew modestly in 2009 as compared with previous years. It's also worth noting that the key pharmaceutical powers grow at a pace that is comparable with the overall market growth rates. China and Brazil are an exception, since consumption of medications in these countries notably outpaces that in other countries. This trend has been observed over the past few years. This made it possible for the Chinese pharmaceutical market to rise to the 5th

place in the 2009 ratings, whereas Brazil replaced Russia in its 10th place. As of now, the Russian pharmaceutical market has moved down to 11th place.

Chart 5

Consumption of FPP in Russia and Other Countries in 2009



Source: IMS Health, DSM Group. **ISO 9001:2000**

Note: Pharmacy market for FPP = commercial segment of FPP + APM

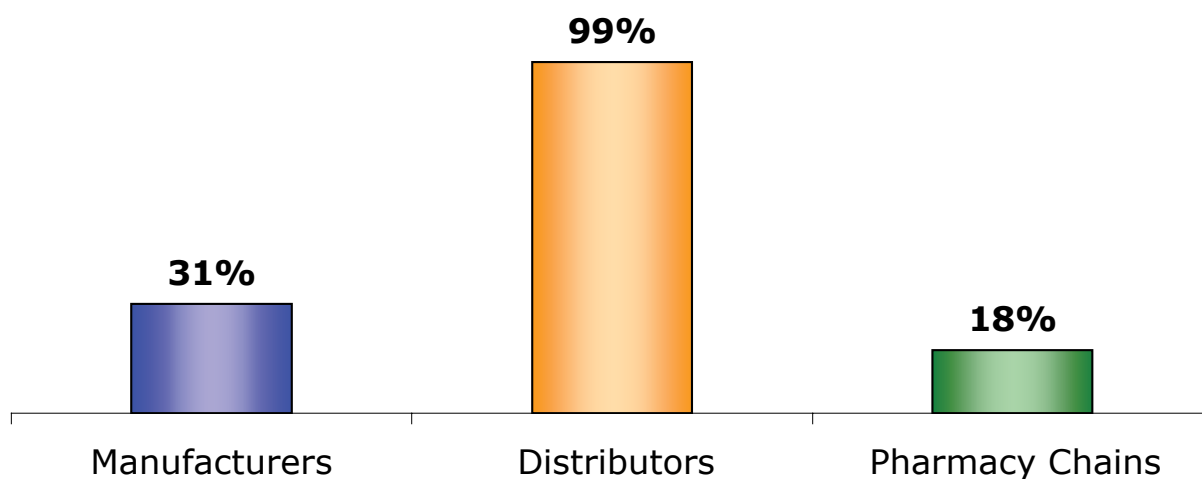
Despite the fact that the Russian pharmaceutical market is one of the leading global pharmaceutical markets, the per capita consumption of medical substances in Russia is relatively low. However, it is worth noting that one of the goals of the Russian government is to bring this number up to the average European levels. Therefore, the average per capita consumption will quadruple within the next ten years.

Pharmaceutical Market Participants

Pharmacy chains, distributors and manufacturers are the main participants in the Russian pharmaceutical market. It is hard to evaluate the importance of each link, but the vast territory of Russia makes distributors the driving force behind the market development. The diversified branch network across Russia owned by major distributors helps to secure provision of medications across Russia. That is why concentration in the segment of distributors is the highest.

Concentration of the pharmaceutical market participants in 2009

The Share of Top 10 Market Participants by Segment



Source: DSM Group. ISO 9001:2000

2. Production

The Concept for Long-Term Social and Economic Development of the Russian Federation Until 2020 became one of the key documents adopted in 2008. The issue about “the increasing role of the human capital as the principal driving force behind the economic development” has become an important part of this program.

“The tasks of turning Russia into a global economic leader and accessing the level of the developed countries in terms of social welfare call for new requirements regarding the health care system. On the one hand, the value of good health is becoming a priority in the society; new medical and social technologies are being developed due to changes in the demographic structure of the Russian population. On the other hand, high levels of medical technologies significantly improve the real capability of improving health indicators among the population, which can be seen from substantial successes in fighting the most lethal diseases in the developed countries”.

To achieve the planned indicators, provisions have been made to increase the share of the government expenditure on health care in the GDP from 3.6% to at least 5.2%-5.5% during 2008-2020 (with due account taken of the purchasing power parity of the ruble and other currencies, the share of the government expenditure on health care in the GDP will amount to about 10%-11%, which is comparable to the indicators shown by the leading developed countries).

The goal of the concept is to increase the share of the Russian producers in the total pharmaceutical turnover in Russia to the value of 25% in 2012, and 50% in 2020.

Currently, the Russian legislation lacks clear definition of the domestic producer. Rather, there is a notion of the “local production”, which is used by foreign manufacturers when they build plants and enterprises in Russia and lease existing sites for their packing and packaging needs. This trend is likely to remain unchanged in the future.

In the wake of the adopted concept, the state as represented by the Ministry for Health Care and Social Development came up with a series of initiatives in 2009 aiming at further development of the Russian manufacturing business. Thus, they have drafted the List of Strategic Medications including 55 preparations that need to be produced in Russia. In addition to that, the

government plans to support Russian enterprises during transition to GMP, which is scheduled for completion in 2012. Currently, only 30 out of 400 Russian pharmaceutical enterprises comply with the international standard.

Again, based on the results of 2009, it is clear that the position of the Russian firms has so far been far from satisfactory. Only one manufacturer has found its way to the Top 20. It is however comforting to know that FARMSTANDARD is in the third place. Notably, the domestic producer showed the greatest growth (38%) of the Top 20 in 2009 as compared with 2008. The rating of this producer continues to grow year on year, and given the current trend it might still improve its position in 2010. The next Russian manufacturer, NIZHFARM, is in the 24th place, but calling it Russian is a bit of a stretch, since it has become part of the international STADA Holding in 2008.

Table 1

Top 20 Manufacturing Firms of FPP by Sales Volume on the Russian Pharmaceutical Market in 2009

Rating 2009	Change	Manufacturing Firm	Cost volume, Rbs mln. 2009	Increase in cost volume	Share
1	1	SANOFI-AVENTIS	18 373	24,3%	4,2%
2	-1	NOVARTIS	16 637	11,3%	3,8%
3	3	FARMSTANDARD OOO	15 470	38,1%	3,5%
4	0	F.HOFFMANN-LA ROCHE LTD	14 853	18,0%	3,4%
5	-2	BAYER SCHERING PHARMA AG	13 609	3,1%	3,1%
6	1	BERLIN-CHEME /A.MENARINI /	12 285	12,8%	2,8%
7	3	GEDEON RICHTER	11 916	34,9%	2,7%
8	-3	JANSSEN PHARMACEUTICA N.V.	11 095	-7,3%	2,5%
9	-1	NYCOMED	10 731	14,8%	2,5%
10	-1	TEVA PHARMACEUTICAL	10 493	14,4%	2,4%
11	2	SERVIER	8 780	19,2%	2,0%
12	3	SCHERING-PLOUGH	8 270	19,3%	1,9%
13	-2	PFIZER	8 041	4,5%	1,8%
14	-2	LEK D.D.	7 909	3,1%	1,8%
15	-1	GLAXOSMITHKLINE	7 671	6,6%	1,8%
16	0	KRKA	7 189	16,3%	1,6%
17	0	NOVO NORDISK	7 108	20,3%	1,6%
18	0	BOEHRINGER INGELHEIM	6 807	19,5%	1,6%
19	0	OCTAPHARMA AG	6 139	10,4%	1,4%
20	0	ASTRAZENECA UK LTD	5 993	10,7%	1,4%

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

Note: sales are shown in end consumer prices including VAT.

What do the ratings show? SANOFI-AVENTIS gained back its leadership, which it lost in 2008. Mostly, this is due to significant (almost double) increase in the firm's presence in the APM Program. The Program is fully financed by the state and notwithstanding the crisis the money for making medications available to subsidized households has been allocated and spent in full. The APM Program will continue to evolve in the future. The budget is planned to further increase by 15% in 2010. Therefore, the manufacturers participating in supplies of expensive medications and medications listed in the Program will have a guaranteed distribution channel.

In addition to that, GEDEON RICHTER moved three positions up to the 7th place. In addition to substantial growth of presence in the APM Program, this producer shows high performance indicators in commercial sector of pharmaceutical sales, too.

In aggregate numbers, the share of the Top 20 producers amounted to about 48% in 2009, which means that these manufacturers set the tone for the development of Russia's pharmaceutical market overall.

3. Distribution Sector of the Pharmaceutical Market

Given its specific nature and vast territory of the Russian Federation, the distribution sector is the most important part of medical provisions.

Russia's geographical features call for specific requirements with regard to the distribution segment. First and foremost, there must be national distributors with a developed network of branches present in all Russia's regions. Currently, there are five distributors of such status, including PROTEK, CIA, KATREN, ROSTA, and ALLIANCE HEALTHCARE. For instance, PROTEK has more than 40 branches, while CIA is present in 39 Russia's regions.

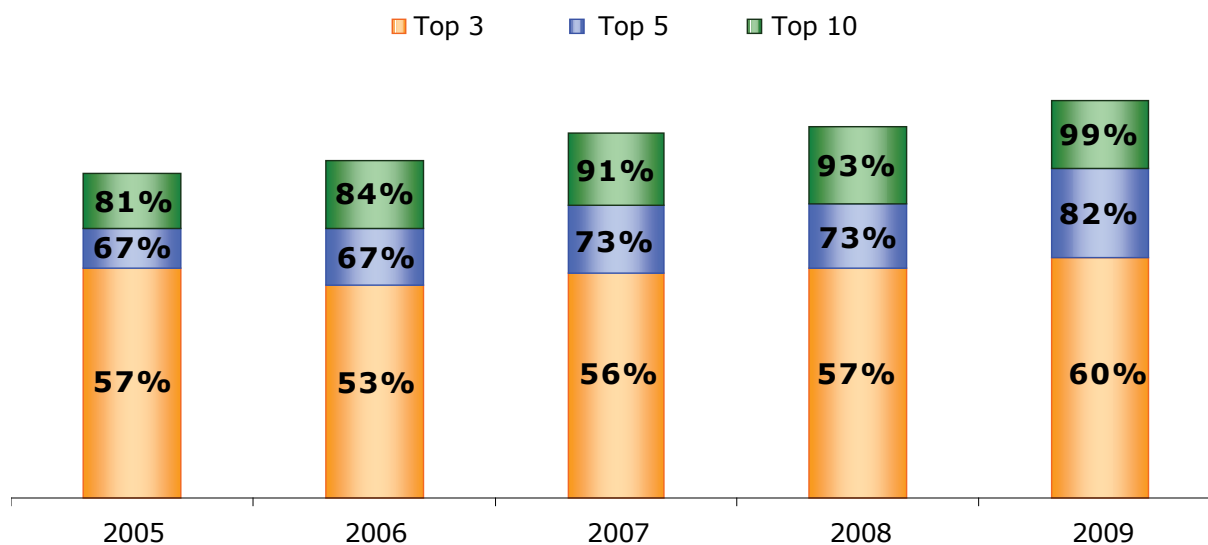
However, despite high concentration of the distribution segment, the Russian market needs small distributors. Such wholesalers help to secure wider distribution of medications across the Russian pharmacies, cover the "niche" segments, such as expensive pharmaceuticals, mostly fulfilling the logistical functions.

Major distributors are currently not only the logistical market operators, but also offer pharmacies a wide range of additional services from technical support to joint sales promotions. All of that is very much in demand with the pharmacies.

In addition to that, major distributors currently act as the guarantors of financial stability of the pharmaceutical market. Most of the goods shipped to the pharmacies are sold on terms of deferred payment (about six months). That way, the distributors provide loans to the market and carry the risks of payment default.

Given the above, it comes as no surprise that the concentration of distributors has been steadily on the rise, and reached almost 100% in 2009 (regarding to the Top 10 leading distributors). This indicator is also affected by the fact that the leading distributors see their share of indirect sales (i.e. sales to smaller distributors) increase. Currently, the share of such sales amounts to approximately 15% within the overall distributor's turnover.

Concentration in the Distributor Segment



Source: DSM Group. ISO 9001:2000

The initiatives of the distributors regarding organization of hi-tech production facilities are fitted with the goals set by the Russian government in The Concept for Long-Term Social and Economic Development of the Russian Federation until 2020.

Major Russian pharmaceutical distributors, such as PROTEK, CIA International, BIOTEK, and others already have their own production sites. In April 2009, the Irvin-2 Company, where the Rostekhnologii Company acts as the co-investor, announced its plans to build a plant to make gene engineering and hi-tech preparations.

Table 2

The Share of Top 5 Distributors on the Pharmaceutical Market of FPP

Rating 2009	Change	Distributor	Share	Increase in cost volume
1	+1	Protek	22.2%	21%
2	-1	CIA	21.9%	16%
3	-	Katren	15.7%	38%
4	-	ROSTA	13.2%	49%
5	-	Alliance Healthcare	9.0%	75%

Source: DSM Group. ISO 9001:2000, own data of the companies; expert data of the Agency

Note: Sales volume is shown in purchase prices of the pharmacies, including VAT

4. Pharmacy Chains

Notwithstanding the crisis, Russia's pharmacy retail market showed high growth rates in 2009 (its commercial segment was up 20% in terms of rubles).

What's going on with the key players on this market, the pharmacy chains? For the second straight year there was no news about major transactions involving purchase or sale of the chains. The trend for decreasing the number of outlets has remained unchanged with the leading players. What gives?

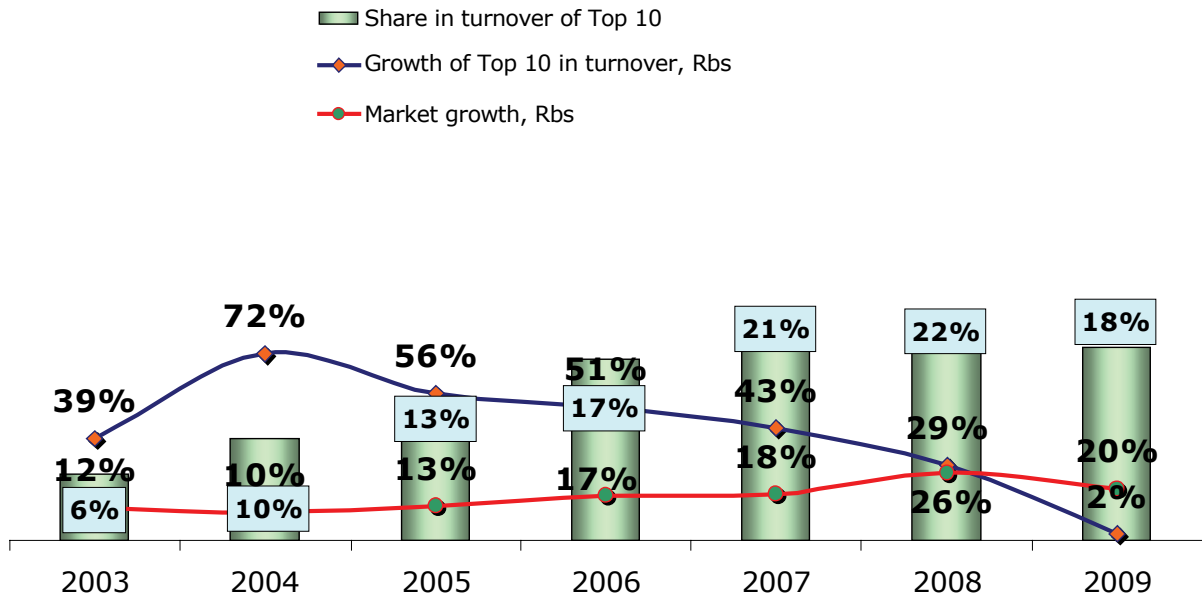
Far from all of the Russian pharmacy chains were hit by the economic crisis in 2009. Despite a significant aggregate share of the pharmacy chains on the retail pharmaceutical market, the clear leaders can be counted on fingers. On top of that, the numbers can't be compared with the distribution segment. The share of the industry's leader Pharmacy Chain 36.6 amounted to approximately 6%, whereas Rigla, player number two on the Russian pharmaceutical market, accounted for 3% in 2008.

Things changed in 2009. First and foremost, the order of priorities in the development of the pharmacy chain business was reshuffled. The key players focused on business optimization and improvements in the performance of existing outlets. Lack of readily available money (caused by the crisis) resulted in the chains growing exclusively through opening of new own outlets, rather than acquiring already existing regional chains. The non-money making outlets were shut down ruthlessly. These were the plans announced by the key players in early 2009. Judging by the year-end results, we can see that not so many companies wandered away from that goal. The leading players reduced their presence with the Pharmacy Chain 36.6 losing 108 outlets as compared with 2008, and Doctor Stoletov shutting down 41 outlets.

Such optimization has affected the market concentration, too. To compare, the top ten chains accounted for about 22% as of the end of 2008, while in 2009 this share went down almost 4%. In total, the top ten chains account for slightly more than 18%. Almost all key players have seen their market shares dwindle: Pharmacy Chain 36.6 lost 2%, while Pervaya Pomosch and Doctor Stoletov lost 0.4% each.

Chart 8

Concentration of Top 10 Pharmacy Chains



Source: DSM Group. ISO 9001:2000

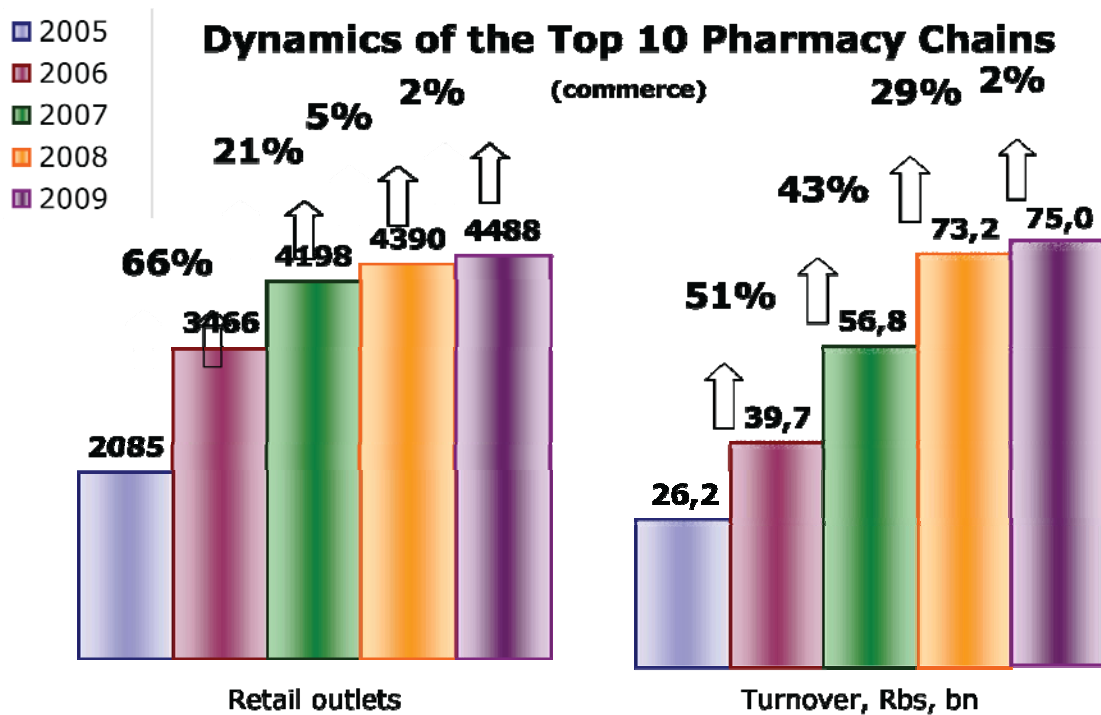
The growth rates of the leading ten chains slowed down: In 2006, the aggregate Top 10 turnover increased by 51%, and by 43% in 2007. The sales by major pharmacy chains grew 2 to 3 times more than the market itself. In 2008, the change in turnover of the Top 10 pharmacy chains outpaced the increase in the capacity of the commercial sector by a small margin. Already in 2009, Top 10 grew by about 2%, whereas the market growth stood at 20%.

The insignificant growth of the total number of outlets among Top 10 chains became another optimization trend, which hasn't happened over the recent years. In 2009, the numerical growth was as low as 2%.

Chart 9 shows the increase in turnover and in the number of outlets owned by the Top 10 pharmacy chains during 2005-2009.

Chart 9

Dynamics of Increase in Turnover and Number of Outlets of the Top 10 Pharmacy Chains



Source: DSM Group. ISO 9001:2000

However, it is worth noting that not all pharmacy chains stuck exclusively to the policy of cutting down non-money making outlets. In addition to them, there were chains which opened new outlets and expanded their retail spaces. For instance, the A5 Pharmacy Chain added more than 100 new retail outlets, Implozia grew by more than 50, and Raduga was up by 190 new outlets. However, these were exceptions to the rule.

The Table shows the ratings of the pharmacy chains within the commercial sector with quantitative and cost indicators of development in 2009.

Table 3

Rating of Chains by Turnover in 2009 on the Commercial Pharmacy Market

Rating	Pharmacy chain	Share in the commercial segment, 2009	Increase in turnover as compared with 2008	Number of outlets
1	Pharmacy Chain 36.6	4.1%	-21%	1019
2	Rigla	2.8%	8%	576
3	Farmakor	2.2%	20%	406
4	Implozia	1.8%	10%	652
5	Raduga	1.7%	54%	516
6	Stolichniye Apteki	1.5%	23%	245

7	Vita	1.2%	9%	309
8	Doctor Stoletov	1.1%	-10%	422
9	Stariy Lekar	1.1%	12%	182
10	Pervaya Pomosch	1.0%	-13%	160

Source: assessment by DSM Group. **ISO 9001:2000**, own data of the pharmacy chains

Overall, the Top 10 ratings have remained unchanged as compared with 2008. However, certain changes have taken place within the rating itself. The first four positions in the ratings are the same as in 2008. However, the fifth position is now taken by the Raduga Pharmacy Chain owned by ROSTA pharmaceutical distributor. In 2006 this chain was far below the Top 20, in 2007 it leaped to 11th position, and to the 8th position in 2008. In 2009, the pharmacy chain was up 54% and took the fifth place in the ratings.

We should also note the 6th position of the Stolichniye Apteki pharmacy chain, which operates exclusively in Moscow. This is the only chain of the Top 10, which is located on the local market limited by one region. The socially oriented nature of this chain and its "state-run" status helped it to outpace the market growth rates.

The market realities force the pharmacy chains to seek new ways of boosting turnover and their market share. Private label has become one of the latest trends. The pharmaceutical market didn't stay away, either. The Pharmacy Chain 36.6 has been selling products under its own label, and these products include not only parapharmaceuticals, but medications, too. In 2010, Rigla launched products falling under the "private label" category.

Another innovation by the pharmacy chains tested on the market involves changes in the shelving format. During 2005-2006, the pharmacy chains were switching to the open shelves en masse. This helped the chains to increase their turnover by selling more parapharmaceutical goods. At some outlets, the share of such products amounts to up to 50%.

The crisis forced the chains to use creative approaches to organizing pharmacy operations and comply with the market demands. Goods with the lowest mark-ups are all the customer needs. A good example of this would be the Samson Farma chain operating as a discounter, whose sales increased by 130% in 2009 as compared with 2008, whereas there had been no changes in the number of its outlets. Therefore, it should come as no surprise that in February 2010 Rigla opened two retail outlets in Moscow using a totally new format for it of a wholesale price pharmacy.

5. Pharmaceutical Market Growth Drivers

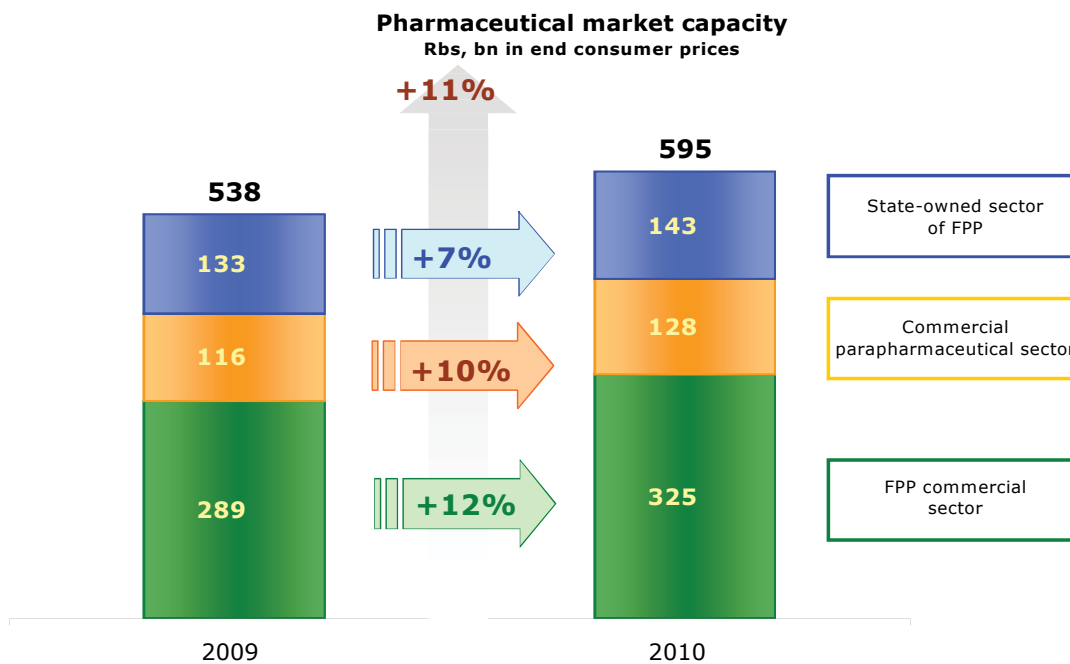
The key growth drivers for the next 10 years will be as follows:

1. Development of the program for additional provision in medications.
2. Introduction of voluntary pharmaceutical insurance.
3. Upgrade of the system for provision of medications to hospitals.
4. Increase in average per capita consumption of medications.

Table 5 shows the cost volumes of the market by segments: Commercial market, market of medical and preventive treatment facilities, and sales numbers of FPP under the APM Program.

Chart 10

Pharmaceutical Market Capacity Forecast



Source: DSM Group. ISO 9001:2000

Pharmaceutical Market Capacity Forecast

Volume, \$ mln.	2007	2008	2009	2010	2011	2012
<i>FPP commercial sector</i>	7 432	9 527	9 191	10 817	12 332	13 811
<i>PF</i>	3 080	4 057	3 685	4 252	4 848	5 429
<i>MPTF</i>	1 797	2 157	1 789	1 813	1 994	2 194
<i>APM</i>	1 961	2 664	2 438	2 947	2 947	2 947
<i>Total, end consumer prices</i>	14 270	18 404	17 103	19 829	22 120	24 381
Growth						
<i>FPP commercial sector</i>	23%	28%	-4%	18%	14%	12%
<i>PF</i>	31%	32%	-9%	15%	14%	12%
<i>MPTF</i>	22%	20%	-17%	1%	10%	10%
<i>APM</i>	-18%	36%	-9%	21%	0%	0%
<i>Total</i>	16%	29%	-7%	16%	12%	10%

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

The volumes are shown in end consumer prices, that is:

1. For commercial segment, these are retail pharmacy prices.
2. For MPTF, these are purchase prices paid by hospitals.

For APM segment, these are prices, including government compensations and regional mark-ups.

The forecast is shown in \$ mln. The exchange rate for 2010-2012 is adopted at a rate of 30 rubles for one dollar.

Commercial FPP Market

This is the largest segment on the Russian pharmaceutical market accounting for about 70% of the total pharmaceutical market. Therefore, 70% of pharmaceutical consumption is secured at the direct expense of consumers.

1. The market growth in 2010 is forecast to reach about 12% in ruble terms. Such a low number is due to the aftermath of the financial and economic crisis and weakened purchasing capacity of Russia's population.

2. In 2011, another booming market is quite possible, which is due to Russia overcoming the crisis. In the future, the market growth will diminish and will switch to the organic type of development within 8% to 10% growth of the cost volume per year by 2020.

3. Some additional growth of the market is possible provided the following:

a. Introduction of GMP. Extra market growth will stand at 3%-5% due to increases in the average packaging price. This process will not start before 2012.

b. Introduction of pharmaceutical insurance. The emergence of a new segment will give a significant boost to market development. Additional market growth at a pace of 18%-20% in terms of money is possible here, with an 8%-10% growth in packaging. The pharmaceutical insurance system will not be there before 2012.

MPTF

1. Increases in the MPTF market are due to the GDP growth, inflation in medications, and the budget allocated to cover these expenses. Therefore, this segment will develop in proportion to these indicators. Our forecast is that the MPTF market will not change in ruble terms in 2010.

2. In the future, the government plans to keep the inflation below 10%. The MPTF market will grow within the same numbers.

3. An additional growth of the segment is possible during reforming the hospital provision system. This process will not begin before 2013.

APM

1. Financial provisions for the APM Program have so far remained unchanged. The government fulfills its obligations in full with regard to the subsidized households in accordance with the budgeted amounts. The amount of allocations will be adjusted by about 15%. In the future, the adjustment will be leveled out by cutting the number of the subsidized households.

2. An additional growth in the APM segment is possible, provided they add an additional list of nosologies to the Program and expand the definition of subsidized households. This will help to increase the share of the government money on Russia's pharmaceutical market.

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 audits of the Russian pharmaceutical market, which you can see in 21 working days (QMS meets ISO 9001:2000 requirements)
- ❖ Hospitals audits
- ❖ 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 (from 20 up to 1500 persons)
- ❖ Media buying
- ❖ Outdoor advertising
- ❖ Corporate video
- ❖ Direct-mail through Russian pharmacies database
- ❖ Marketing plans

There are about 60 specialists in pharmaceuticals, 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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