RUSSIAN PHARMACEUTICAL MARKET

2006

GROUP
DSM

Dear colleagues!

I would like to tell a few words about Russian pharmaceutical market in 2006. The tendency is that the Word of Three Letters gained in great importance.

Firstly, it is of course the magic word DLO. Indeed, pharmaceutical market bounced due to the state having returned in. The meaningful market volume was achieved in 2006. 12 billion dollars is not just a unique figure for Russia. Russian pharmaceutical market entered TOP 10 national markets in the world with it; so we can expect relative attention from Western companies. On the other hand, Russian doctors get used to prescribe and patients to consume modern innovative medications.

There is also another word – IPO. Russian pharmaceutical market is obviously attractive to foreign investors. On the one hand, state programs influence; they are accustomed to the West where they cover up to 86% of the market finance. On the other hand, the commercial sector is also interesting: people income is growing; “civilized” retail which can deliver wide assortment to the customer is growing either. You don’t still consider IPO working in Russian company? Thus, investors’ money could come to anyone else...

The year 2006 opened new possibilities. The key question of 2007 is to use them.

Good luck to all of you!

Alexander Kuzin
General Director of DSM Group

CONTENTS

CJSC “DSM Group”

General Director
Alexander Kuzin

Research Director
Sergey Shulyak

Retail Audit Department Director
Julia Nechaeva

Senior Analyst
Natalia Chernyadieva
Ekaterina Nasekina

Senior Analyst
Ksenia Nedogovorova

Translation
Olga Sidorenkova

Design
Andrey Maltzev
Oksana Nagurnaya

Analytic Review
RUSSIAN Pharmaceutical Market
in 2006

Address: 7, Building 2,
5-th Yamskogo Polya Street,
Moscow, 125040 Russia
Phones:+7 (495) 780-72-63, 780-72-64
Fax: +7 (495) 780-72-65
http://www.dsm.ru

SUMMARY

In 2006 the pharmaceutical market value has amounted to 12.3 billion dollars (including VAT) in end user prices that corresponds to 36% growth compared to the previous year. The state financing of pharmaceuticals purchases became a major factor influencing the pharmaceutical market growth.

In 2006 the market growth rate in Russia is the highest worldwide; it allowed Russia to find itself in TOP-10 list of countries by the capacity of drugs retail market. Nevertheless the quality of drug consumption is far behind Western Europe and North America: when in these countries the pharmaceuticals consumption averaged to no less than 250 dollars per capita annually, in Russia this value in 2006 is only 59 dollars.

The value of drugs commercial pharmacy market was in 2006 6.0 billion dollars with 16% increase compared to 2005. The major factor of commercial segment growth is process of consumers reorientation to higher-priced drugs. Price index of the commercial segment of drugs slightly exceeded 2% which is significantly lower than inflation rate in 2006 (9.0%).

The consumption value provided by the State Reimbursement Program (DLO) exceeded in 2006 2.4 billion dollars with 74% increase compared to 2005. The major factor of consumption growth in the frames of Reimbursement program was an increase of average prescription value and of average cost of consumed unit: while in 2005 the average unit cost was 155 rubles, this cost reached 330 rubles in 2006.

The parapharmaceutical segment growth rate stays high, in 2006 this segment increased by 43%.

Drug import value in Russia in 2006 amounted to 6.5 billion dollars, which is 63% higher than that in 2005.

In retail segment, the share of TOP-10 pharmacy networks is about 20%. The share of TOP-10 members has increased by a factor of 4 for the last 5 years. According to the results of 2006, the pharmacy networks “36.6” and “Rigla” became the leading players. It is these networks that demonstrated in 2006 the highest sales growth rate resulted from both opening new outlets and intensive purchases of existing smaller market participants.

Probably, the one of main sensations on the market was in the distribution segment: the market share of “SIA International” reached that of “Protek”. In 2006 both companies cover about 23% of the market. The main issue of 2007 will be who is to become the leader on the pharmaceutical market. Who will be the holder of the third position also stays an open question. At the moment there are 3 companies laying claims to this place: “Biotek”, ROSTA and “Katren”.

Drug manufacturing segment is the most stable on the market, but even here there were several remarkable events in 2006. One of them is purchase of 100% share of closed joint-stock company “Masterlek” by “Pharmstandard”. The deal allowed “Pharmstandard” to take in 2006 the third place in the drugs commercial segment and the 10th place on the Russian pharmaceutical market as a whole. The leader of the pharmaceutical market is “Sanofi-Aventis” with its market share exceeding 5%.

In the commercial segment of pharmacy market two drugs, “Arbidol” (Pharmstandard) and “Viagra” (Pfizer), became sales leaders in 2006.

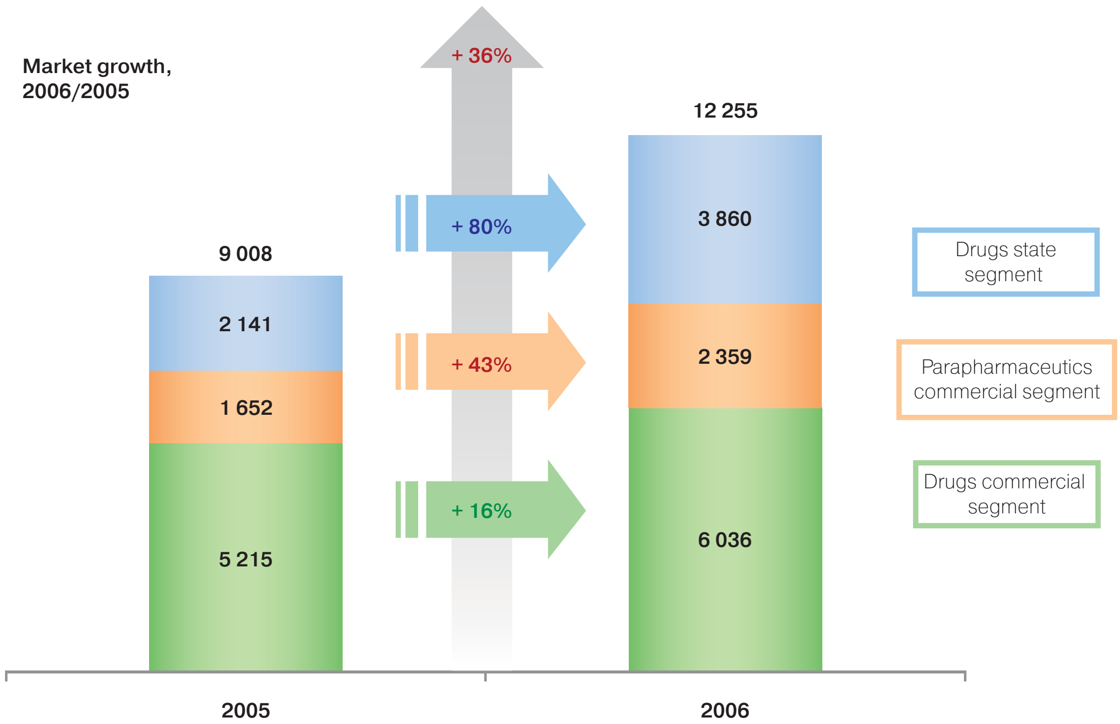
PHARMACEUTICAL MARKET VALUE IN RUSSIA

No one was left untouched by the events that had taken place on the Russian pharmaceutical market in 2006. The issues connected to the events taking place on the market were repeatedly covered by media: The DLO program and the legality of its implementation, high-profile mergers and purchases in all segments of the pharmaceutical market: retail, distribution and manufacturing. There were many positive and negative occasions. In spite of that, Russian pharmaceutical market showed in 2006 a high development dynamics.

Diagram 1 shows dynamics of retail sales value of Russian pharmaceutical market in 2005-2006.

Diagram 1

Pharmaceutical market value, consumer prices



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

Note. *Drugs state segment includes data on the Reimbursement program (DLO) and hospitals segment.*

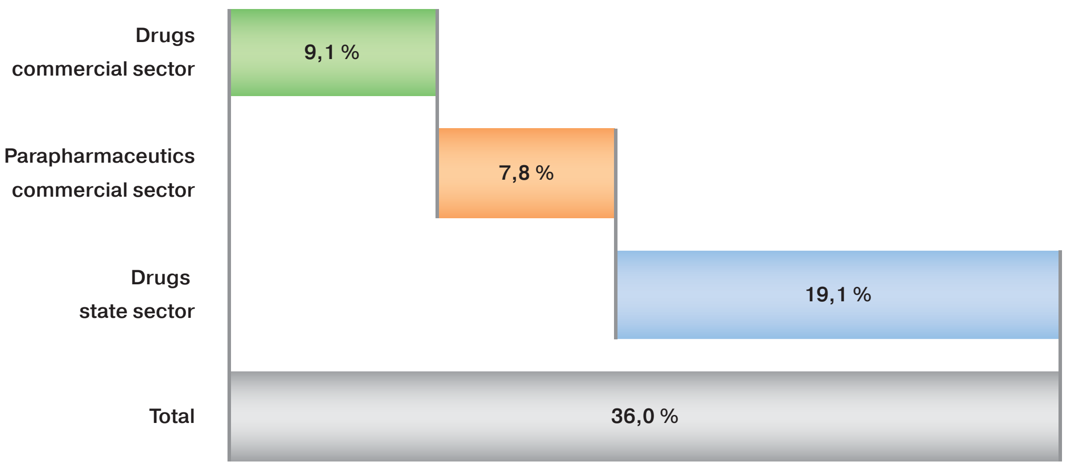
Thus, according to the retail audit by DSM Group, the pharmaceutical market value in 2006 amounted to 12.3 billion dollars in end user prices (VAT included).

Similar to 2005, the state financing of pharmaceuticals purchases became a major factor influencing the pharmaceutical market growth. As a result a significant growth at the level of 36% is observed the second year in a row.

Diagram 2 shows the shares contributed by different market segments to the overall growth of the pharmaceutical market.

Diagram 2

Growth structure of the pharmaceutical market in 2006



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

It should be noted, that in 2006 the further rapid development was observed in the parapharmaceutical segment. As is shown in Diagram 1, parapharmaceutical segment growth in retail prices increased by 43% in 2006 compared to that in 2005. This may be attributed to several factors: open-trade pharmacy enterprises and pharmacy supermarkets keep on developing (the share of parapharmaceuticals there reaches 60%). At the same time, regular pharmacies do not remain behind as in this case the “goods for beauty and health” are an additional source of pharmacy income and give pharmacies an additional chance to get a significant profit.

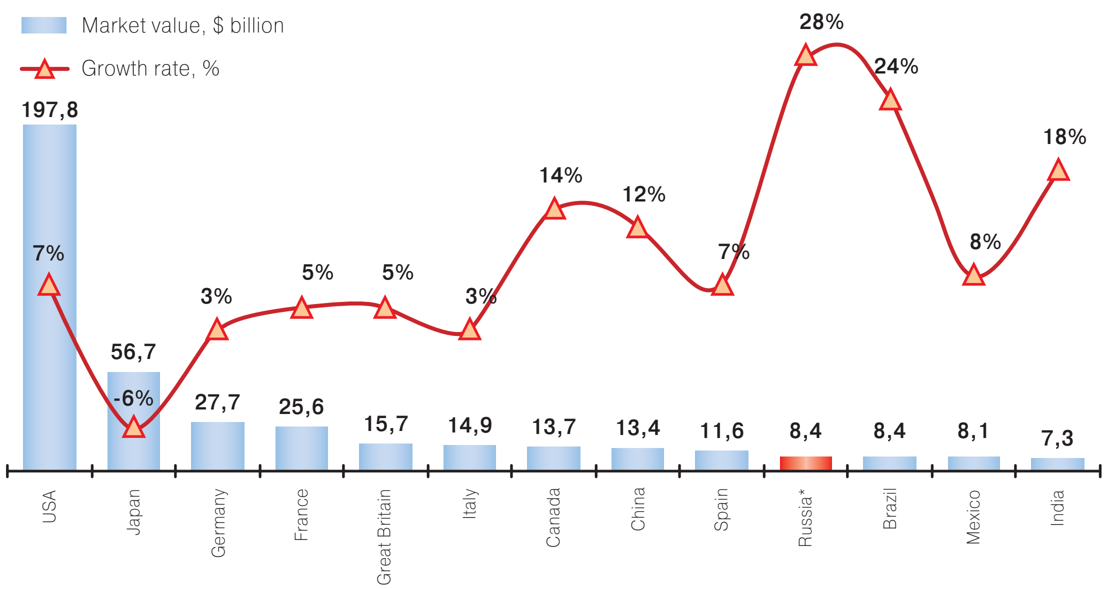
1. Value of Russian pharmaceutical market compared to other countries

Russian pharmaceutical market is only a small part of the world pharmaceutical market. Our company regularly watches the dynamics of the national market development at the background of other countries.

Diagram 3 shows several world countries ranking by retail drug market value in 2006.

Diagram 3

Drugs retail market in Russia and in other countries in 2006



* Russian pharmaceutical market value in 2006, DSM Group's data.

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

As can be seen from Diagram 3 Russia tails the list of ten countries being world pharmaceutical leaders. It is high growth rate in 2006 that allowed Russia to show this result and advance in the list by two positions leaving behind Mexico and Brazil.

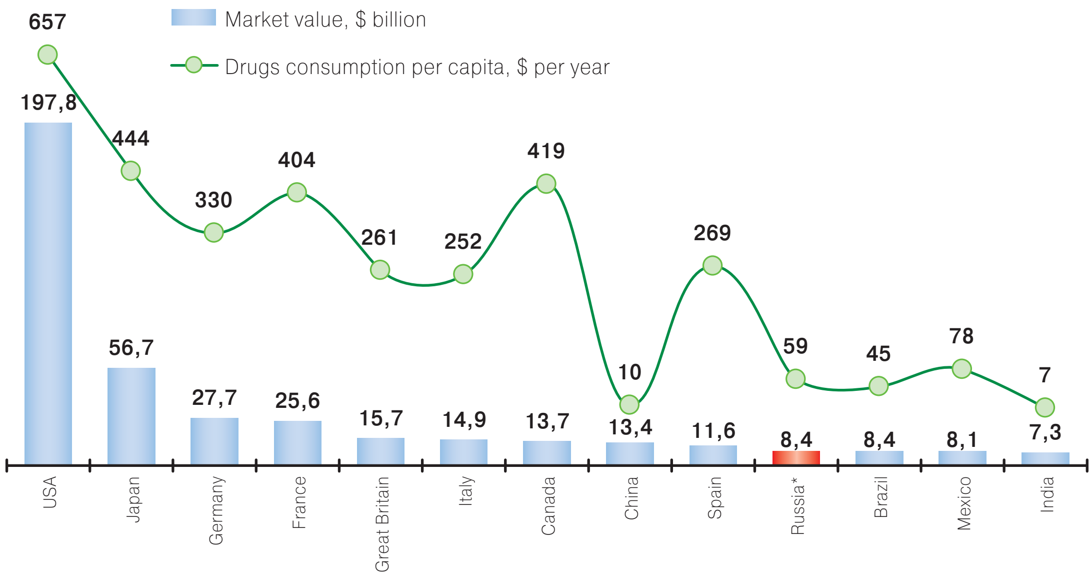
In 2006 the growth rates on retail drug market in Russia were the highest when compared with those in other countries. Nevertheless, even if the development rate of Russian pharmacy market stays the same, Russia is unlikely to have further advance in the ranking as the preceding rival is China where, due to introduction of western quality standards among its population, the potential of national pharmaceutical market is especially high.

To make obvious the small size of Russian market compared to the world leaders the following illustration should be enough: its annual value is one and a half times less than the annual growth of US market. However, Russian market preserves its substantial potential created by the high growth rate (+28%). Russia is the world leader by growth rate in 2006.

However, a higher position in the ranking by drug market value does not yet mean that people in this country spent more on drugs. The market value of such countries as USA, China, Brazil, Russia, and Japan is in many respects connected to high population. The picture somewhat changes when comparing the drug consumption per capita.

Diagram 4

Drugs consumption in Russia and in other countries



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

Thus, the world leaders by drug consumption among the represented countries still stay USA and Japan while Canada has closely approached the leaders and has left behind in this respect all other countries in spite of its smaller value of drug market.

2. State and personal finances ratio on the drugs market

In Russia, state is one of the strongest participants in all areas: social, industrial, etc. The pharmaceutical market is not an exception. The role of the state has been keeping growing for the last several years.

The state regulation of the pharmaceutical market is conducted in Russian Federation in the following directions: ensuring availability of drugs; state drug quality control and quality assurance; state control of narcotic and psychotropic agents circulation; state regulation of drug prices; observance of pharmaceutical order, financial discipline supervision, etc.

A formed so far Russian pharmaceutical market consists of two sectors: state or “budget-dependable” sector where financing is performed from state sources and non-state or market sector where the drugs are paid by own money of the citizens. Such segments of the pharmaceutical market as Reimbursement (DLO) program and hospital purchases belong to the first, state, sector.

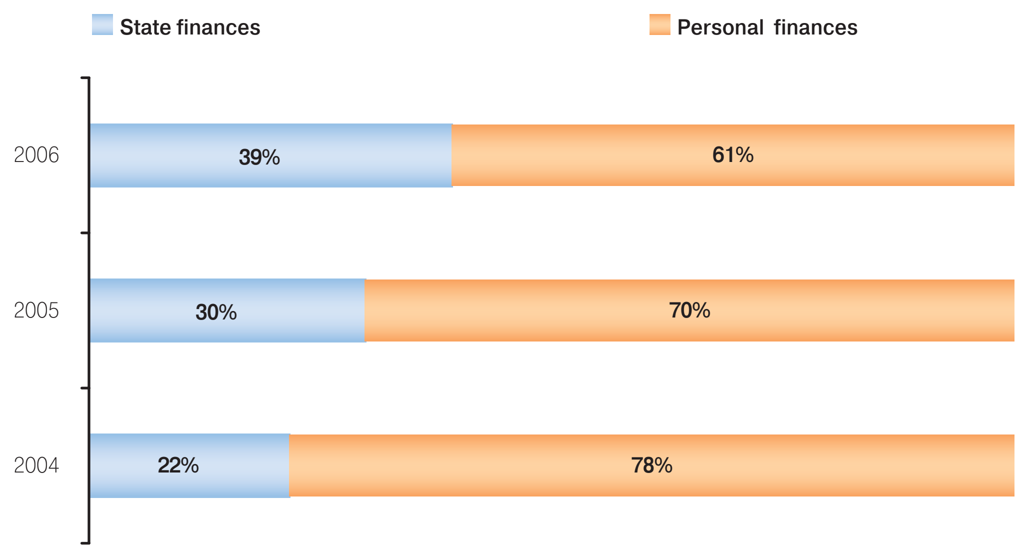
Let us have a look at the dynamics of drug consumption distribution for state- and population-financed sectors on Russian drug pharmaceutical market.

In 2004 the state financed hospital purchases and payment for drugs for beneficiary categories of citizens (partial or full drug reimbursement). The share of hospital purchases averaged to about 12%. The drug reimbursement for beneficiary categories of citizens was performed mainly at the expense of regional budgets and amounted to 10% averaged over the whole country. Thus, the state share in the sales value of drugs of the pharmaceutical market was about 22%.

Everything dramatically changed with the introduction of the Reimbursement program (DLO) segment. The dynamics of state share went steeply up and the share amounted to 30% in 2005. But this was still the introductory period of the DLO program. As the program gets grown-up and the users-beneficiaries confidence in it grows, the drug consumption value financed by the DLO system grows up significantly in 2006 and, in turn, results in positive change of the index of drug consumption at the expense of state budget (see Diagram 5).

Diagram 5

Consumption on the pharmaceutical market owing to various types of finances



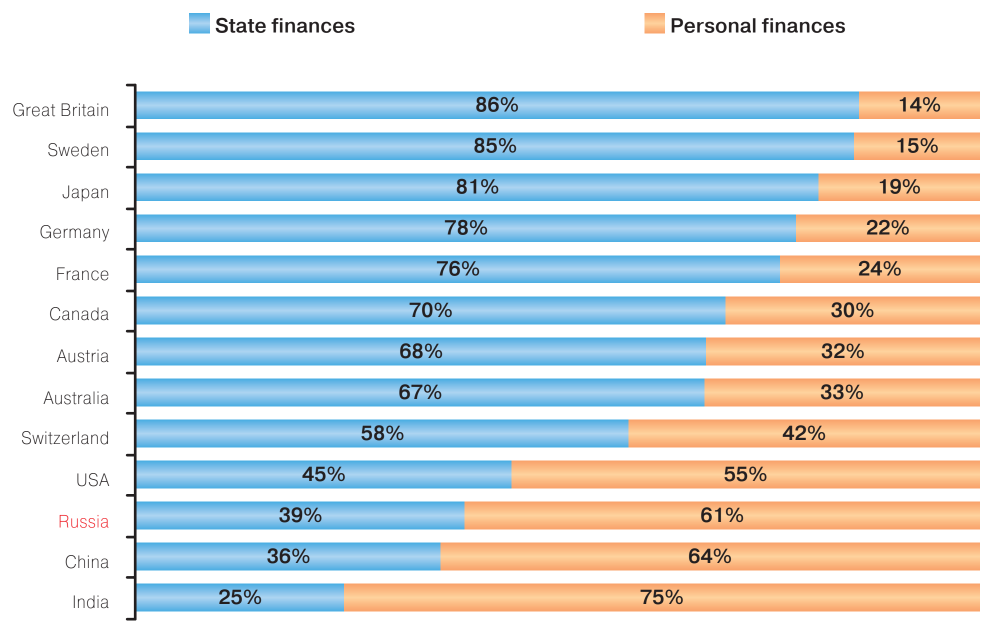
Source: DSM Group. **ISO 9001:2000**

The final results of 2006 show that the share consumed at the expense of state finances constitutes 39% of drugs on the pharmaceutical market.

In spite of the positive dynamics of the state financing of different programs on the pharmaceutical market, Russia is still a way behind other developed countries in this respect. Diagram 6 shows the ratio between the state- and population-financed consumption in different countries.

Diagram 6

Funds allocation on the pharmaceutical markets in different countries



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

It can be said that Russia is a long way from Great Britain, Sweden, Japan, etc. But mere expansion of the DLO program by inclusion into it of new categories of citizens, by growth of hospital purchases will not allow Russia to approach these leading countries. Introduction of insured drug financing for employed population may become a new shoot forward to improve this index.

Thus, at the moment Russian pharmaceutical market may be said to be characterized by low level of state and population paying capacity, low share of drugs reimbursed from state or insurance sources (Russia - 39%, Western countries – 60-70%) and low share of hospital segment - 15% (WHO recommendation - 40%, it was followed in Soviet times).

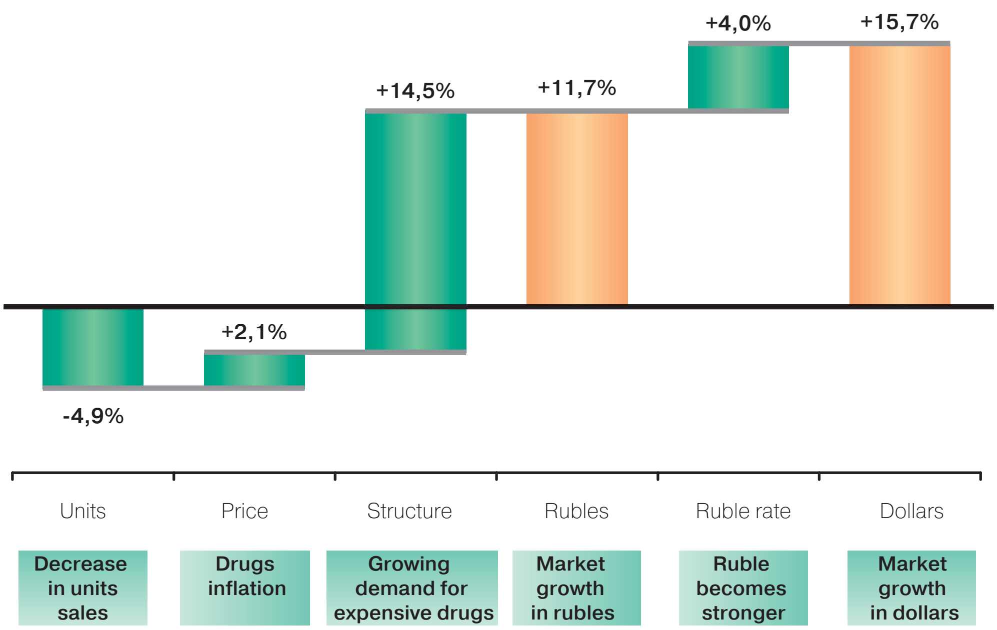
In spite of the high growth rates of state and parapharmaceutical segments of the market one of the pharmaceutical market segments having the most capacity stays commercial drug segment. In 2006 it has 50% share of the overall market capacity.

The capacity of the commercial drug market in 2006 slightly exceeded 6 billion dollars (see Diagram 7). The segment has grown only by 16% in comparison with 2005.

It is of interest to understand what the 16% are constituted from.

Diagram 7

Growth structure of the drugs commercial market in 2006



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

One of interesting trends developing on the market is consumer re-orientation to more expensive drugs. It can be seen from the following tendencies: firstly, the consumption structure is shifting (this factor being the most significant) for the benefit of higher-priced drugs, and, consequently, the consumer may be said to spent money on more effective drugs; secondly, the consumption volume is decreasing while the consumption value is increasing; thus, the customer may be said to prefer to spent once more money to buy a single big package, than to buy a small package several times.

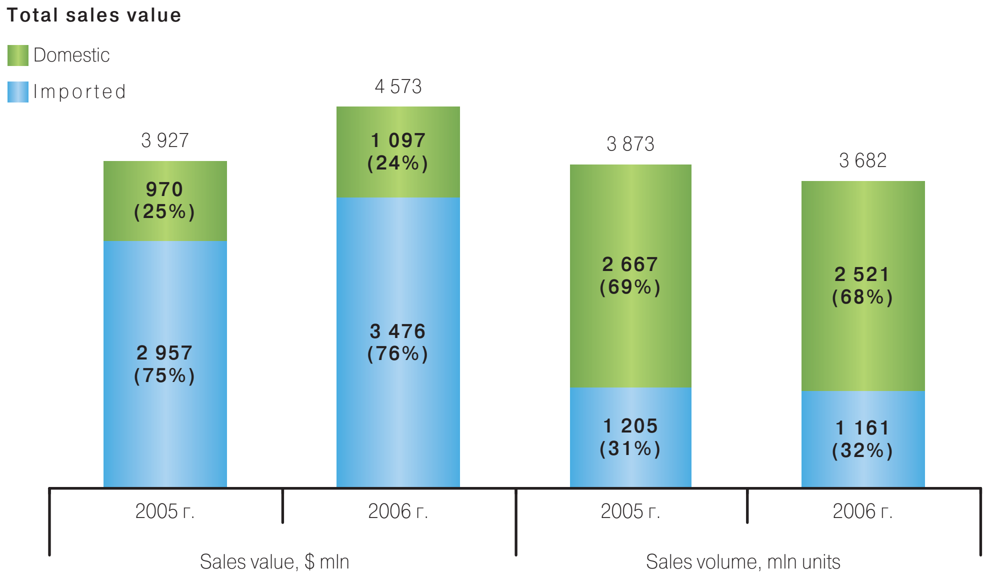
Of course, we should not forget that at the moment one of reasons for the nominal growth of not only pharmaceutical market but of the overall Russian economy is ruble strengthening, 4% of 16% of the market growth can be attributed namely to this factor. If average index of dollar in 2005 was 28.29 rubles, in 2006 in average dollar was equal to 27.19 rubles which corresponds to more than one ruble drop for one year.[1]

1. Proportion of imported and domestic drugs on commercial market

The structure of commercial drug market in terms of sales value of domestic and imported drugs is shown in Diagram 8.

Diagram 8

Imported and domestic drugs sales value



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

Note: *Sales values are given in pharmacies purchasing prices, VAT included*

The domestic drugs cover only one forth of Russian commercial drug market in sales value and this index reduced in 2006 to 24%. At the same time the domestic drugs prevail in terms of sales volume, although their share also dropped from 69% in 2005 to 68% in 2006.

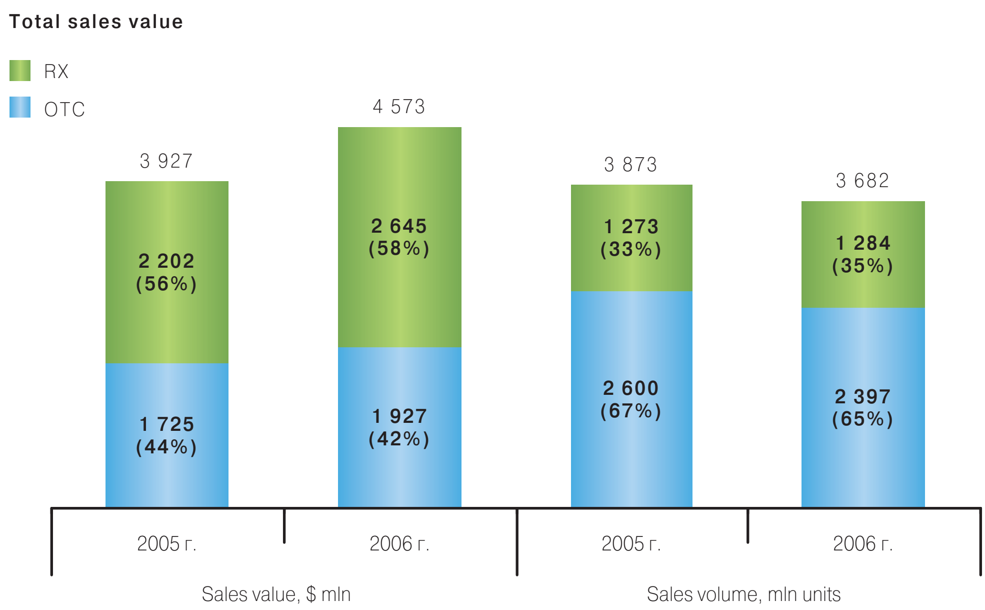
[1] Data are taken from the report “Monitoring of social and economic development of Russian Federation in 2006” issued by Ministry of Economic Development and Trade (MEDT).

2. Proportion of Rx and OTC drugs on commercial market

Proportion of Rx and OTC drugs by pharmacy sales is shown in Diagram 9.

Diagram 9

OTC and Rx drugs sales value



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

Note. *When calculating shares of Rx and OTC, drugs were distributed officially according to the OTC list. The fact that Rx drugs in pharmacies are often sold without prescription was disregarded.*[3]

In 2006 the share of Rx drugs in pharmacy sales value in Russia increased by 2% and amounts to 58%.

In sales volume the OTC drugs are observed to prevail in Russia; in 2006 their share amounted to 65%.

3. Sales structure by ATC-groups on commercial market

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

Table 1

Sales structure by ATC-groups on the commercial market

First level ATC-groups	Sales value, $ mln	Share of the group in sales value, %	Sales volume, mln units	Share of the group in sales volume, %
A: Alimentary tract and metabolism	839	18,4	728	19,8
N: Nervous system drugs	639	14,0	768	20,8
C: Cardiovascular system drugs	533	11,7	288	7,8
R: Respiratory system drugs	500	10,9	474	12,9
J: Antibacterials for systemic use	359	7,8	196	5,3
G: Genitourinary system drugs and sex hormones	354	7,7	57	1,6
M: Musculoskeletal system drugs	292	6,4	196	5,3
[~] Without allocation (homeopathic preparations, plant and animal drugs, substances etc.)	263	5,8	332	9,0
D: Dermatologicals	250	5,5	387	10,5
L: Antineoplastic and immunomodulating agents	208	4,5	32	0,9
B: Agents affecting blood and blood forming organs	137	3,0	74	2,0
S: Agents affecting sensory organs	98	2,1	76	2,1
H: Systemic hormon al preparations (excluding sex hormones)	45	1,0	12	0,3
V: Various	33	0,7	41	1,1
P: Antiparasitic products, insecticides and repellents	23	0,5	20	0,5

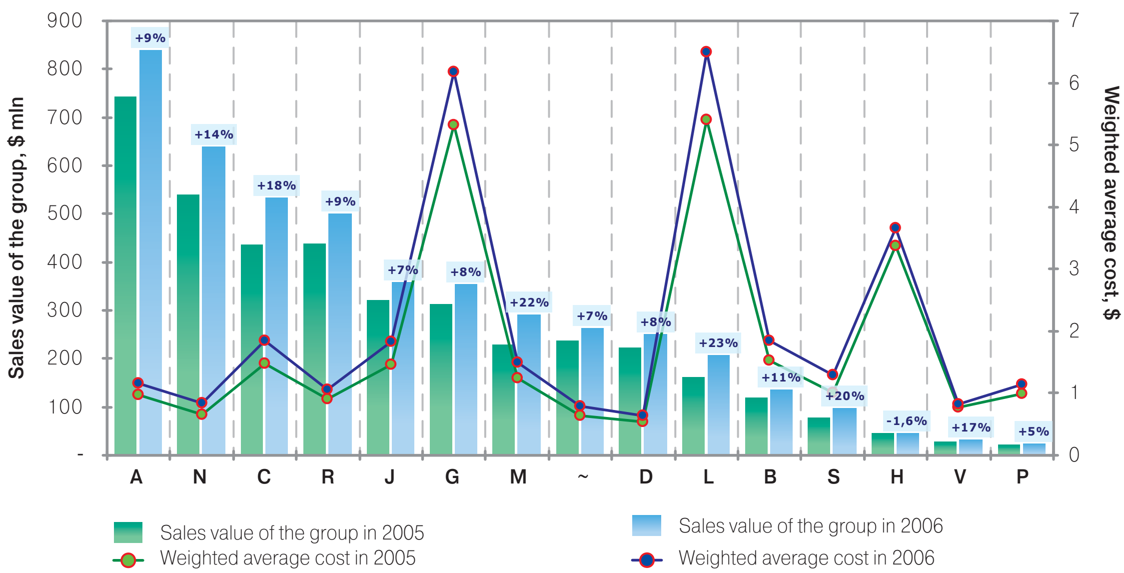
Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

In 2006 the group [A] "Alimentary tract and metabolism" was the leader on Russian commercial market by sales value. Its share amounted to 18.4%. The group [N] "Nervous system drugs" is on the second place with 14% share and the group [C] "Cardiovascular system drugs" is on the third place - 11.7%.

In 2006 the structure of the commercial market by ATC-groups did not have significant changes in comparison with 2005. The increase in the capacity and average cost of unit in ATC-groups is shown in Diagram 10.

Diagram 10

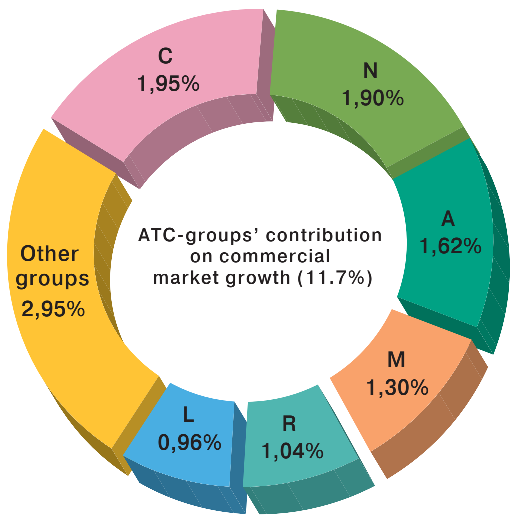
Drugs commercial market structure in 2005-2006



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

Diagram 11

Weighted growth of ATC-groups



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

The highest relative increase of share was observed for group [L] "Antineoplastic and immunomodulating agents". In 2006 the increase in group [L] capacity exceeded 23% with nearly 9% of them attributed to the growth of Arbidol sales.

The most significant relative drop of share on the commercial market in 2006 compared to 2005 was observed for group [H] "Systemic hormonal preparations" with the group capacity in sales value reduced by 1.6%. It is explained by the fact that on the pharmacy market half of sales of this group drugs occurs in the frames of the DLO program sales while the latter grew by over 45%. It is one the rear examples when implementation of the DLO program resulted in sales reduction on the commercial market.

The weighted average prices per unit significantly differ in different ATC-groups. In 2006 the weighted average price per sold unit for groups [G] and [L] exceeded 6 dollars (160 rubles) that speaks of expensive drugs predominance in the above groups. Group [H] was also characterized by a high enough weighted average price per unit exceeding 3.5 dollars (100 rubles). This value did not exceed 50 rubles per unit for all other groups.

The contributions of different ATC-groups to the overall growth of the commercial market was determined using weighted increase index, the value taking into account the share of each ATC-group multiplied by its growth rate (see Diagram 11.).

In 2006 the groups [C] "Cardiovascular system drugs" and [N] "Nervous system drugs" made the most contributions to the increase of the value capacity of the commercial drug market. The big contribution of group [C] to the market growth resulted from one and a half times increase in "Mildronat" (Grinex) and "Concor" (Nycomed) sales; for group [N] it is a result of double increase in sales of "Mexidol" and "Coaxil" (Servier).

In 2006 in group [A] "Alimentary tract and metabolism" the highest growth rate was demonstrated by "Milgamma" (Woerwag) and "Heptral" (Abbott) that allowed them to significantly increase their share and get into TOP-8 leaders list within the group. Among the "Musculoskeletal system drugs" (group [M]) the highest growth was demonstrated by "Movalis" (Boehringer Ingelheim).

4. Manufacturers on the commercial market

Table 2 shows TOP-20 manufacturing companies leading by the sales value on Russian commercial market in 2006.

In 2006 the drugs produced by 997 manufacturers were present in Russian pharmacies.

The tendency of last years is the increase of the number of Russian manufacturers which amounted to 560 in 2006. In spite of that only 2 of them are present in the TOP-20 list.

The leader of the retail sales among drug manufacturers is "Sanofi-Aventis" with "Berlin-Chemie" being on the second place. In spite of rather modest growth of sales value the two companies managed to keep their leading places in the manufacturers ranking.

"Pharmstandard" has significantly strengthened its market power by acquisition of "Masterlek" keeping patents to the trademarks of well-known drug manufacturers. The deal allowed "Pharmstandard" to take the 3rd place in the TOP-list by annual results instead of former 7th place.

Another Russian company present in the TOP-20 list is a homeopathic products manufacturer "Materia Medica Holding". The market share of this company is likely to keep growing as a result of increasing consumer interest to this segment of pharmaceutical products.

It is of interest that both Russian companies present in the TOP-20 list obtained the maximum share of their growth due to antiviral and immunostimulating drugs "Arbidol" and "Anaferon".

TOP-20 drugs manufacturers by pharmacy sales value on the Russian commercial market in 2005-2006

Rating 2006	Manufacturers	Sales value, $ mln 2005	Sales value, $ mln 2006	Sales value increase
1	SANOFI-AVENTIS	188	208	11%
2	BERLIN-CHEMIE /A.MENARINI/	156	168	8%
3	PHARMSTANDARD	117	149	27%
4	GEDEON RICHTER	108	133	23%
5	PFIZER	116	130	12%
6	SERVIER	87	121	39%
7	NOVARTIS	97	118	22%
8	NYCOMED	98	117	19%
9	LEK D.D.	90	114	27%
10	KRKA	88	97	10%
11	GLAXOSMITHKLINE	76	84	11%
12	SOLVAY PHARMACEUTICALS B.V.	63	80	27%
13	SCHERING AG	65	77	18%
14	F.HOFFMANN-LA ROCHE LTD	55	68	24%
15	DR.REDDY'S LABORATORIES LTD	56	64	14%
16	EGIS	54	64	19%
17	SCHERING-PLOUGH	51	62	22%
18	ASTELLAS PHARMA INC	43	59	37%
19	BOEHRINGER INGELHEIM	43	56	30%
20	MATERIA MEDICA	37	53	43%

Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

5. Drugs on the commercial market

In 2006 "Arbidol" and "Viagra" are heading the TOP-20 list of drug brands. These drugs are the market leaders as their difference in the sales value is insignificant.

Taken into account that in 2007 "Arbidol" has growth rate 8 times higher than "Viagra" it may be supposed that "Arbidol" is likely to become the only leader of the commercial market of drugs.

In 2006 the TOP-20 list by brands was stable enough and the drugs leading on the market in 2005 have not radically changed their positions. Nevertheless, this fact is not valid for the domestic brands "Mexidol" and "Anaferon" that reached 89% and 71% sales growth rate respectively which allowed them to get into the TOP-20 list.

It should be noticed that among TOP-20 members the drop of sales is observed only for "Crataegus" and "Terpincod".

Table 3

TOP-20 drug brands by pharmacy sales value on the Russian commercial market in 2005-2006

Rating 2005	Rating 2006	Brands	Sales value, $ mln		Sales value increase
			2005	2006	
9	1	ARBIDOL	27,9	44,0	58%
1	1	VIAGRA	41,5	44,0	7%
3	3	ACTOVEGIN	34,8	39,5	14%
2	4	CRATAEGUS	40,8	37,2	-9%
7	5	ESSENTIALE	28,6	35,3	23%
5	6	ENAP	30,0	32,6	8%
10	7	TERAFLU	24,7	32,3	31%
4	8	MEZYM FORTE	31,4	31,7	1%
6	9	VITRUM	28,6	31,7	11%
8	10	NO-SPA	28,1	30,1	7%
14	11	XENICAL	20,9	26,8	28%
12	12	PENTALGIN	21,7	24,9	15%
16	13	PREDUCTAL	19,1	24,3	28%
13	14	CAVINTON	21,5	24,1	12%
17	15	LINEX	19,1	24,0	26%
49	16	MEXIDOL	11,9	22,6	89%
15	17	COLDREX	19,6	22,2	13%
46	18	ANAFERON	12,6	21,5	71%
11	19	TERPINCOD	23,0	20,9	-9%
18	20	VIFERON	18,5	20,9	13%

Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

6. Price index on the commercial market

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

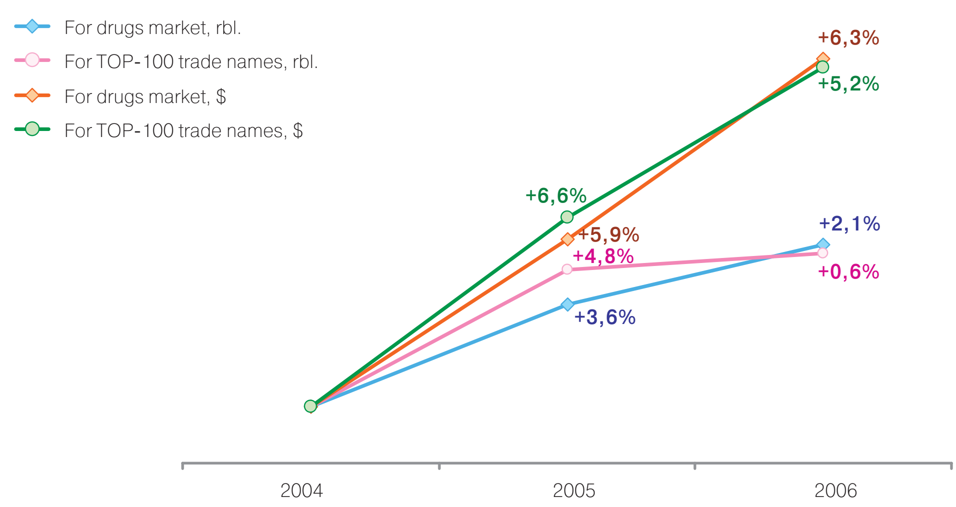
In 2006 the drug price index has grown by only 2.1% if compared to 2005 and the growth is significantly less than that happened in 2005 (+3.6%). At that, the price rise of the most popular drugs on the market was totally negligible: in 2006 the price index of the TOP-100 brands amounted to 0.6%.

It is of interest that in 2006 the price change for domestic and imported drugs is quite opposite to the picture observed in 2005. In 2005 the price index for the imported drugs was much higher than that for the domestic ones. In 2006, as a result of ruble strengthening, the price rise for the imported drugs was merely 1% while for the domestic ones it amounted to about 4%.

[2] Price index for 2005 and 2006 was calculated on the basis of intersected list of all full names of drugs present on the market in 2004-2006.

Diagram 12

Change in drugs prices on the Russian commercial market in 2005-2006

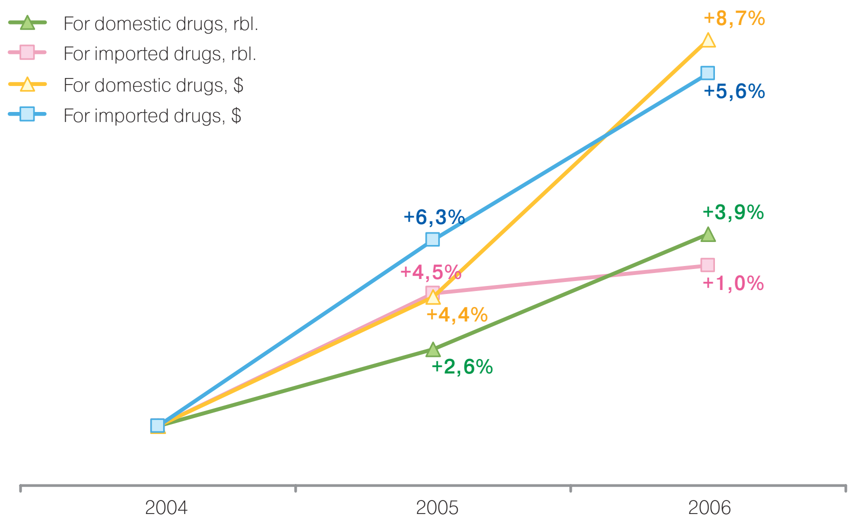


Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

The price index for imported and domestic drugs for the period of 2005-2006 is shown in diagram 13.

Diagram 13

Price index for imported and domestic drugs on the Russian commercial market in 2005-2006



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

Thus, the 18% rise of average unit price on the commercial market is explained by change in the sales structure and is not connected to drug price rise.

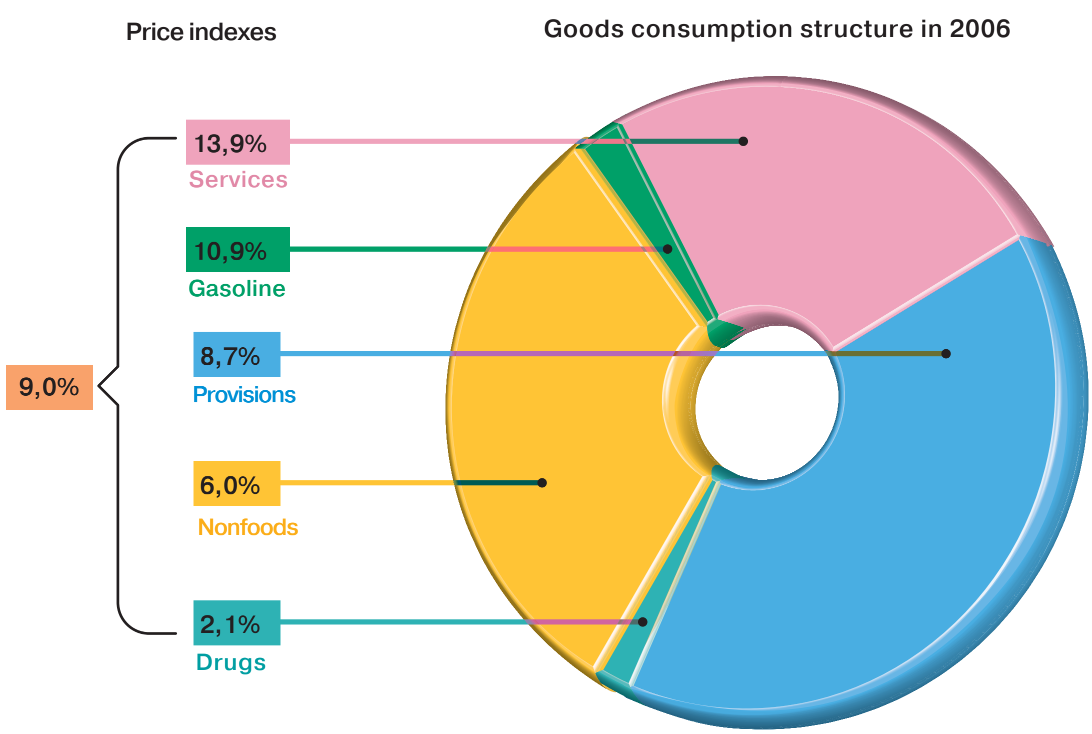
According to Goskomstat data drugs cover 1.62% of the base structure of consumption expenditure of Russian population.

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

In 2006 the overall consumer price index amounted to 9% with the highest price rise (13.9%) observed in the service industry while the non-food products went up by only 6%. Among non-food products petrol had one of the highest price index (10.9%). In 2006 the price rise for pharmaceuticals was one of the lowest in comparison with other product categories.

Diagram 14

Consumer prices index in Russia (December 2006 to December 2005)



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**, Goskomstat

Thus, it can be said that pharmaceuticals practically did not become more expensive for consumer.

7. New drugs

The range of pharmaceuticals offered by pharmacies constantly changes. Some drugs leave the market while others appear there either after re-registration or they are some new pharmaceuticals.

The term "new drugs" is referred, firstly, to the trade names that have been registered for the first time in Russia in the period since June, 2005 and, secondly, to those that started their pharmacy sales in 2006.

The characteristic feature of 2006 is the reduction of the number of new trade names on the pharmacy market: if in 2004 there were 150 new trade names encountered in Russian pharmacies, in 2005 there were 160 new trade names, then in 2006 their number reduced to 130 names.

In 2006 the sales value of sold new drugs was 12.07 billion dollars (2.5 billion units).

TOP-20 list of new drugs is shown in table 4. What is mostly important, it is domestic manufacturer that became leader in the production of new drugs and their introduction to the market, it is holding "Otechestvennye lekarstva". As many as three drugs from this manufacturer became best in the ranking. There can be seen a new tendency of active conduct of Russian drug manufacturers in terms of introduction of their new drugs to the market: they are not only generic drugs, but also original and innovative pharmaceuticals (for instance, "Zorex", "Afobazol").

Table 4

TOP-20 new drugs trade names introduced to the Russian commercial market in 2006

№	Trade names	Registration date	Manufacturers	INN	Value, $ mln
1	ZOREX	03.11.2005	OTECHESTVENNYE LEKARSTVA	~	1,80
2	GRAMMIDIN WITH ANESTHETIC	02.12.2005	OTECHESTVENNYE LEKARSTVA	GRAMICIDIN S	1,35
3	CYCLODYNON*	20.05.2005	BIONORICA ARZNEIMITTEL GMBH	VITEX AGNI CASTI FRUCTUS, EXTRACT	0,92
4	AFOBAZOL	03.11.2005	OTECHESTVENNYE LEKARSTVA	~	0,87
5	ANTIGRIPPIN-MAXIMUM	16.09.2005	ANTIVIRAL NPO, ZAO	~	0,61
6	LONGIDAZA	23.09.2005	PETROVAX PHARM NPO, OOO	HYALURONIDASE + POLYOXIDONIUM	0,54
7	SINUFORTE	15.03.2005	IVERIAPHAARMA, LTD	~	0,42
8	CEREPRO	08.07.2005	VEROPHARM, ZAO		0,42
9	VITAMIN E ZENTIVA	25.11.2005	ZENTIVA A.S.	VITAMIN E	0,40
10	AVASTIN	15.07.2005	F.HOFFMANN-LA ROCHE LTD	BEVACIZUMAB	0,31
11	NEXTRIM ACTIVE	15.07.2005	POLPHARMA PHARMACEUTICAL WORKS S.A.	~	0,28
12	OMNIC OCAS	28.10.2005	ASTELLAS PHARMA INC	TAMSULOSIN	0,26
13	FLORACYD	23.03.2005	OBOLENSKOYE FP, ZAO	LEVOFLOXACIN	0,23
14	ANDROGEL	03.11.2005	SOLVAY PHARMACEUTICALS B.V.	TESTOSTERONE	0,20
15	PROGRAF	18.11.2005	ASTELLAS PHARMA INC	TACROLIMUS	0,20
16	FOSICARD	21.10.2005	ACTAVIS GROUP HF.	FOSINOPRIL	0,20
17	OMACOR	29.07.2005	SOLVAY PHARMACEUTICALS B.V.	OMEGA-3 TRIGLYCERIDES	0,19
18	NEBIDO	16.12.2005	HEXAL AG	TESTOSTERONE	0,19
19	RAVEL SR	24.06.2005	KRKA	INDAPAMIDE	0,18
20	STALEVO	16.09.2005	ORION	~	0,15

Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

Note. *„Cyclodynon" is a new trade name of „Agnucaston" (thus, in 2006 the drug was re-branded that allowed to rise its sales twice compared to 2005).*

The whole picture supported by the company ranking shown in Table 5 shows that in 2006 there are several domestic companies at once which have successfully introduced to the market new drug brands.

Table 5

TOP-20 manufacturers of the new drugs trade names of 2006 on the Russian commercial market

№	Manufacturers	Value, $ mln
1	OTECHESTVENNYE LEKARSTVA	4,05
2	BIONORICA ARZNEIMITTEL GMBH	0,92
3	NPO ANTIVIRAL	0,61
4	ZENTIVA A.S.	0,61
5	VEROPHARM	0,60
6	NPO PETROVAX PHARM	0,54
7	ASTELLAS PHARMA INC	0,45
8	SOLVAY PHARMACEUTICALS B.V.	0,43
9	IVERIAPHARMA	0,42
10	KRKA	0,31
11	F.HOFFMANN-LA ROCHE LTD	0,31
12	ACTAVIS GROUP HF.	0,31
13	POLPHARMA PHARMACEUTICAL WORKS S.A.	0,28
14	FP OBOLENSKOYE	0,26
15	HEXAL AG	0,19
16	PLIVA HRVATSKA D.O.O.	0,15
17	PHARMSTANDARD	0,15
18	ORION	0,15
19	SERVIER	0,14
20	AKRIHIN	0,12

Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

By drugs with new medical forms we mean the drugs that were present on the pharmacy market before but in different dosage form. In 2006 the drugs were supplied to pharmacies in new dosage forms. The following drugs that had already proved themselves were the most successful at the introduction to the market in new dosage forms: "Zalain" (vaginal suppositories), "Relief Advance" (ointment for rectal and external use), "Gynezol 7" (vaginal cream), "Venoruton" (effervescent tablets). Introduction by manufacturers of drugs in new dosage forms widens their applicability and contributes to increase of consolidated sales value of the corresponding brand.

The Reimbursement program started working in 2005 as an "obligatory system": at that time population did not have a choice of participating in the program or not. Over that period of time there was enough funds to support the DLO program. In 2006 the situation changed: about half of people receiving social support in the form of the DLO program refused to participate in the program (preferring money compensation), but a dramatic shortage of money took place.

Already in the first half of year the drug sales value amounted to 29 billion rubles, that corresponded to the annual budget appropriated for the DLO program in the year beginning. One of measures taken to reduce the volume of reimbursed drug sales was yet another change of the list of drugs allowed for the program.

In 2006 the DLO program started with an updated list of reimbursed drugs. Noticeably, the list of drugs prescribed free of charge was significantly extended (see table 6). The sales value kept inevitably growing and government once again decided to revise the list with changes made into two directions: reduction of the number of the list positions and reduction of prices for program beneficiaries.

Ramil Khabriev, the director of Federal Control Service in Health Care and Social Development, told, commenting the changes of the free of charge drugs list, that part of the excluded drugs is removed as they are used in hospitals while others were excluded as they were expensive in comparison with analogs and some drugs disappeared because their manufacturers did not agree with the proposed prices.

The exclusion of drugs has negative effect on the whole drug-dealing system (that is, the additional expenses caused by withdrawal of the remaining inventory from pharmacies and return to manufacturers are the total responsibility of the authorized pharmaceutical organizations). What is more serious, this fact influences the program beneficiaries. They get used to the previously present in the list drugs and their withdrawal sets for them a serious problem as the updated list does not always contain an adequate substitute. This is especially actual for innovative drugs. Due to this fact the consumers are forced to make drug reserves for many months and it cannot contribute to stabilization of situation with the DLO program.

Table 6

DLO list dynamics

Order	Started	Number of trade names	Number of full with manufacturers taken into account	Number of INN
order #296 of December 2, 2004	Jan 01, 2005	939	1814	317
order #1136-pr/05 of May 26, 2005	Jun 01, 2005	1241	2402	440
order #2943-pr/05 of December 30, 2005	Jan 01, 2006	1559	3061	535
order #1382-pr/06 of June 09, 2006	Jun 01, 2006	1572	3037	538
order #1382-pr/06 of June 09, 2006	Jul 01, 2006	1240	2180	504
order #2240-pr/06 of October 02, 2006	Nov 01, 2006	965	1632	438

Source: Roszdravnadzor

The tendency observed in 2006 is a considerable increase in the number of prescribed drugs per one beneficiary (in some cases the number of different drugs prescribed to one beneficiary could be about 100 names) including many-fold increase in the number of prescriptions for expensive drugs.

The number of prescriptions issued in 2005 amounted to 145.6 millions and in 2006 it exceeded 120 millions. In spite of significant reduction of the number of beneficiary categories the number of issued prescriptions is quite comparable with the previous year.

Thus, in spite of the government attempts to reduce the volume of prescribed drugs the consumed value of the DLO program in 2006 amounted to 2.4 billion dollars (65 billion rubles) which is 74% more than in 2005.

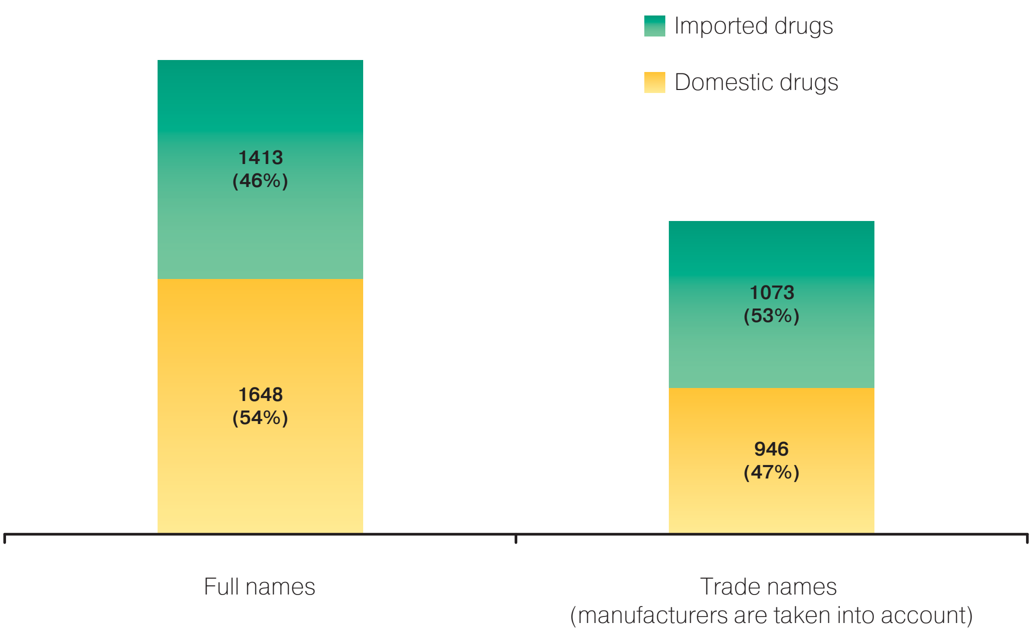
1. Proportion of imported and domestic drugs within the DLO program

One of the roots of the DLO program was to provide an additional stimulus for the development of the domestic pharmaceutical industry. In spite of the fact, the DLO program turned into an "import" one as the domestic production takes only modest place in the list of the reimbursed drugs.

If we analyze the list by the number of trade names a relative parity between listed imported and domestic drugs can be seen.

Diagram 15

DLO lists proportion



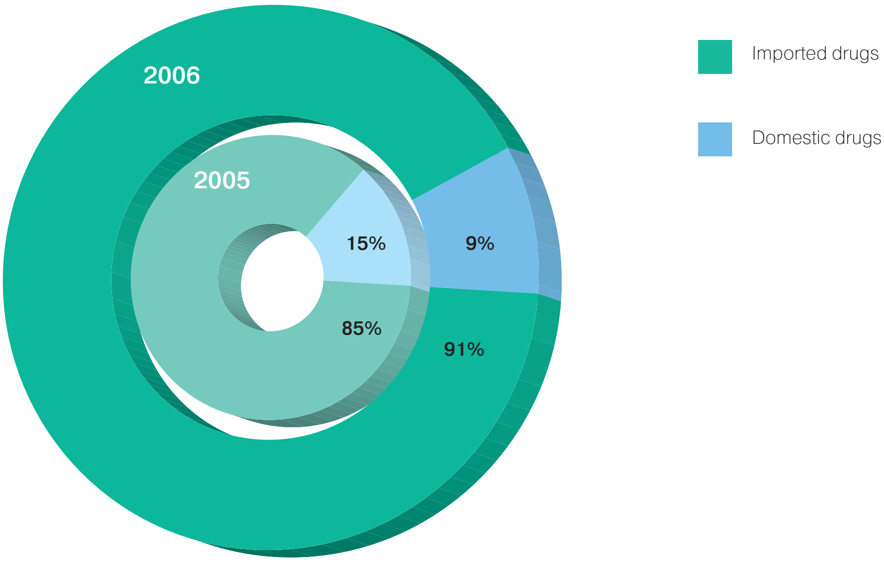
Source: DSM Group. **ISO 9001:2000**

Note: *The analysis was done for the drugs included in all the lists of 2006.*

The proportion by sales value is significantly shifted to the side of imported drugs with their value share growing in 2006.

Diagram 16

Imported and domestic drugs sales proportion



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

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

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

In 2006 the share of Rx drugs in the DLO program sales value in Russia increased by 2% and amounts to 95%.

In sales volume a slight reduction of Rx drug sales from 84% to 82% took place.

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

Proportion of 1st level ATC groups by pharmacy sales within the DLO program in 2006 in Russia is shown in Table 7.

Table7

Sales structure by ATC-groups on the DLO market

First level ATC groups	Sales value, $ mln	Share of the group in sales value, %	Sales volume, mln units	Share of the group in sales volume, %
L: Antineoplastic and immunomodulating agents	670,12	28,11%	2,41	1,24%
A: Alimentary tract and metabolism	370,62	15,55%	36,58	18,83%
C: Cardiovascular system drugs	369,03	15,48%	70,57	36,33%
N: Nervous system drugs	326,45	13,69%	38,29	19,72%
B: Agents affecting blood and blood forming organs	250,13	10,49%	5,83	3,00%
R: Respiratory system drugs	122,92	5,16%	9,50	4,89%
M: Musculoskeletal system drugs	114,09	4,79%	16,15	8,31%
H: Systemic hormon al preparations (excluding sex hormones)	62,25	2,61%	2,02	1,04%
J: Antibacterials for systemic use	40,09	1,68%	5,38	2,77%
G: Genitourinary system drugs and sex hormones	33,02	1,39%	0,93	0,48%
S: Agents affecting sensory organs	15,39	0,65%	4,99	2,57%
D: Dermatologicals	5,16	0,22%	1,35	0,70%
V: Various	4,06	0,17%	0,15	0,08%
P: Antiparasitic products, insecticides and repellents	0,66	0,03%	0,06	0,03%
[~] Without allocation (homeopathic preparations, plant and animal drugs, substances etc.)	0,03	0,001%	0,01	0,01%

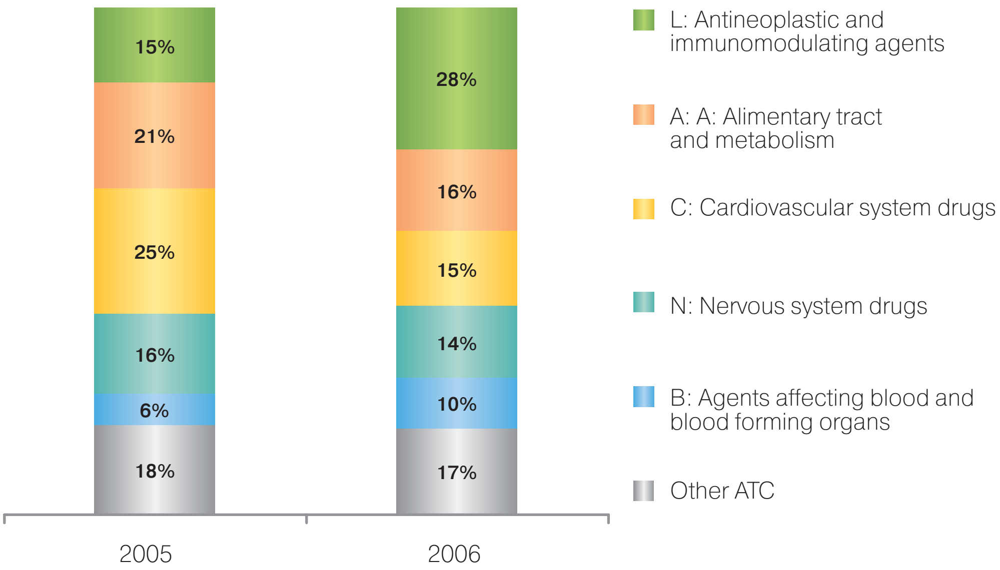
Source: DSM Group. **ISO 9001:2000**

In 2006 within the DLO program the first place by sales value belongs to group [L] "Antineoplastic and immunomodulating agents". Its share amounted to 28.1%. The second and third places with 15% segment is shared between group [A] "Alimentary tract and metabolism" and group [C] "Cardiovascular system drugs".

In 2006 the structure of the DLO market by ATC groups significantly changed in comparison with 2005. In spite of the fact that similar to 2005 80% of consumption is shared between 5 ATC groups, their proportion has significantly changed (see Diagram 17).

Diagram 17

ATC-groups sales proportion within DLO Program



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

The share of group [L] "Antineoplastic and immunomodulating agents" has increased almost twice. In sales value the growth of this group amounted to 236% (!). The growth mostly resulted from a significant extension of the drugs allowed for prescription within the DLO frames for this ATC group in 2006; addition of 24 new trade names of 152 provided almost 60% of the overall group growth. Noticeably, 3 of 24 newly added in 2006 trade names are members of the TOP-20 list by the group [L] sales value:"Velcade" (Janssen Pharmaceutica N.V.); "Avastin" (F.Hoffmann-La Roche ltd); "Remicade" (Eli Lilly).

Also, the share of the group B "Agents affecting blood and blood forming organs" has significantly grown from 6% in 2005 to 10% in 2006. The growth resulted from a drastic increase in consumption of drugs listed in TOP-15 ranking: the average growth of TOP-15 in 2006 amounted to 320% relative to 2005 while the growth of the group as a whole was 223%. The following drugs are the group leaders: Eprex (Janssen Pharmaceutica N.V.); "Octanate" (Octapharma AG); "Haemoctin CDH" (Biotest Pharma Gmbh).

4. Manufacturers in the DLO program

Table 8 shows TOP-20 manufacturing companies leading by the consumption value in the DLO program in 2006.

According to the 2006 lists of drugs allowed for prescription the number of manufacturers in the DLO program is 222 versus 194 in 2005; 34 of them were added only in 2006 while 6 companies were excluded from the lists.

The DLO program leader in 2006 is "Janssen Pharmaceutica N.V.", "Novartis" is at the second place. Thus, the DLO program ranking considerably differs from the sales ranking.

Table 8

TOP-20 drugs manufacturers by DLO consumption in 2005-2006

Rating 2005	Rating 2006	Manufacturers	Sales value, $ mln		Sales value increase
			2005	2006	
17	1	JANSSEN PHARMACEUTICA N.V.	28,9	232,4	705%
4	2	NOVARTIS	66,0	169,0	156%
7	3	F.HOFFMANN-LA ROCHE LTD	47,2	168,2	257%
1	4	SANOFI-AVENTIS	99,1	123,7	25%
2	5	NOVO NORDISK	82,6	120,1	45%
11	6	ASTRAZENECA UK LTD	40,5	106,2	163%
5	7	ELI LILLY	60,2	82,2	36%
22	8	SCHERING AG	24,3	79,7	228%
9	9	SERVIER	42,3	69,2	63%
8	10	KRKA	45,4	66,5	46%
20	11	TEVA PHARMACEUTICAL INDUSTRIES	25,5	63,7	150%
6	12	A.MENARINI GROUP LTD	57,8	62,1	7%
13	13	BOEHRINGER INGELHEIM	34,0	58,3	72%
46	14	OCTAPHARMA AG	5,3	56,4	975%
12	15	SOLVAY PHARMACEUTICALS B.V.	38,1	56,3	48%
3	16	GEDEON RICHTER	66,6	46,4	-30%
18	17	EBEWE ARZNEIMITTEL GMBH	28,6	44,3	55%
21	18	GLAXOSMITHKLINE	24,6	37,7	53%
31	19	BIOTEST PHARMA GMBH	11,3	37,6	233%
48	20	SCHERING-PLOUGH	4,6	30,2	552%

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

It should be noted that all companies present in TOP-20 list have significantly grown with company “Gedeon Richter”, that reduced its DLO sales by 30%, being an exception. It resulted from the fact that most of “Gedeon Richter” drugs had not been included in the list executed by order #2240-pr/06 of October 02, 2006 being in force since November 01, 2006.

5. Drugs in the DLO program

In 2006 “Velcade” and “Glivec” are heading the TOP-20 list of drug brands in the DLO program.

As a whole the top-list by brands (as well as by manufacturers) has considerably changed in 2006: only 8 drugs are present both in the TOP-20 list of 2005 and in that by results of 2006. The TOP-20 changes are connected both with amendments of the lists of allowed drugs (for example, “Velcade” was introduced only in 2006 lists) and with alteration of the drug consumption structure within the DLO program in favor of more expensive drugs: if in 2005 only 2 drugs with average weighted price over 500 rubles were present in 2005 TOP-20 ranking, in 2006 the number of these drugs reached 10.

Table 9

TOP-20 drug brands by pharmacy sales value on the DLO market in 2005-2006

Rating 2005	Rating 2006	Brands	Sales value, $ mln		Sales value increase
			2005	2006	
-	1	VELCADE	-	82,1	-
3	2	GLIVEC	29,9	79,9	167,0%
63	3	EPREX	6,2	58,1	840,3%
12	4	BETAFERON	16,1	50,6	215,0%
87	5	OCTANATE	3,9	45,1	1064,8%
4	6	CEREBROLYSIN	26,7	42,0	57,3%
77	7	RISPOLEPT CONSTA	5,1	38,8	668,4%
28	8	HAEMOCTIN CDH	11,0	34,8	217,5%
16	9	ARIMIDEX	14,8	31,8	115,4%
45	10	MABTHERA	7,9	31,3	296,5%
17	11	LANTUS	14,7	29,3	99,0%
85	12	HERCEPTIN	4,0	28,3	616,4%
26	13	RECORMON	11,0	26,9	144,2%
150	14	TEMODAL	2,0	26,9	1211,6%
41	15	ABITAXEL	8,4	26,6	215,8%
6	16	BETASERC	20,0	26,5	32,7%
20	17	MEXIDOL	14,4	26,1	81,1%
1	18	PREDUCTAL MB	40,7	25,3	-37,9%
35	19	CASODEX	9,7	24,7	154,9%
43	20	PRESTARIUM	8,1	23,7	190,9%

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

6. Comparison of average unit cost between the DLO program and commercial market

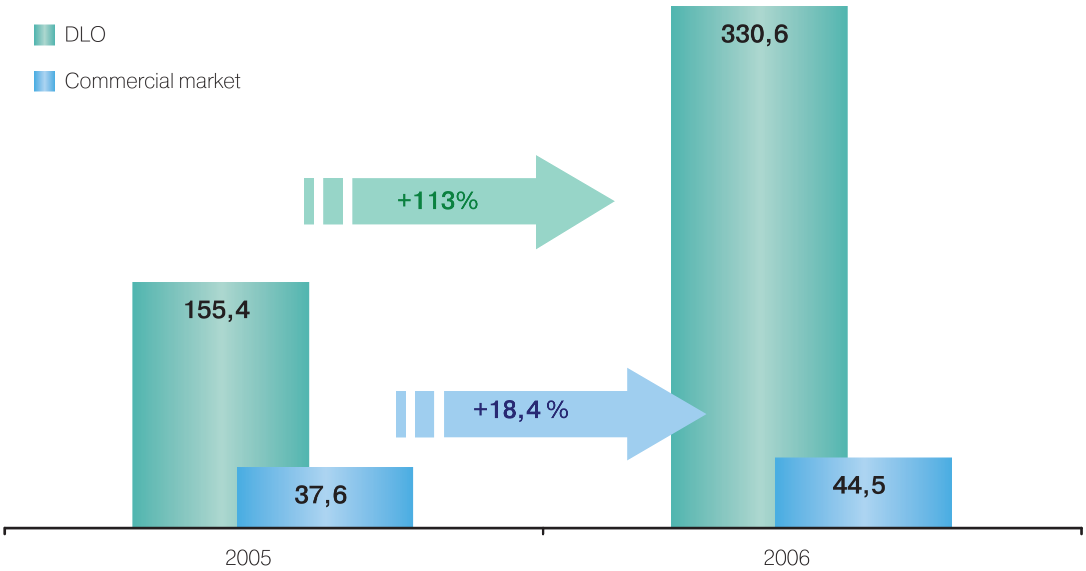
Diagram 18 shows change of average drug unit cost on Russian commercial market and in the DLO segment in 2006 in comparison with 2005.

In 2006 the average cost of drug unit on the pharmacy market of drugs increased by 31% and amounted to 58 rubles; although the increase of that on the commercial market is more modest (+18.4%) it is also a sensation. Let us try to understand the reason of so significant changes.

Since the moment when the DLO program was introduced, the price structure of this market segment was being transformed with the share of more expensive drugs increasing. In spite of the measures taken by RosZdravNadzor and aimed to withdraw the high-priced drug categories to separate programs, to shorten the DLO list and to reduce the manufacturers' release prices the structure stabilized only in the last months of 2006. By the end of 2006 more than 70% of the DLO sales value was covered by the drugs priced over 500 rubles per unit. In early 2005 this segment amounted to less than 40% of the DLO market capacity.

Diagram 18

Average cost per drug unit (in consumer prices)

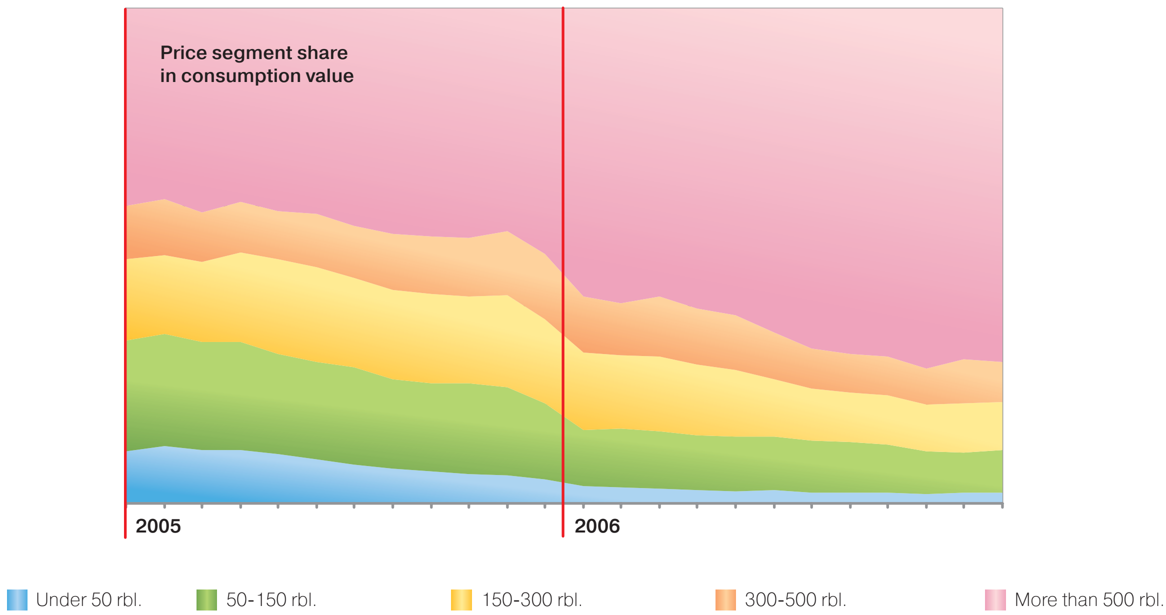


Source: DSM Group. **ISO 9001:2000**

The drug consumption structure within the DLO program is presented in Diagram 19.

Diagram 19

Change in drugs consumption structure within DLO Program in 2005-2006



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

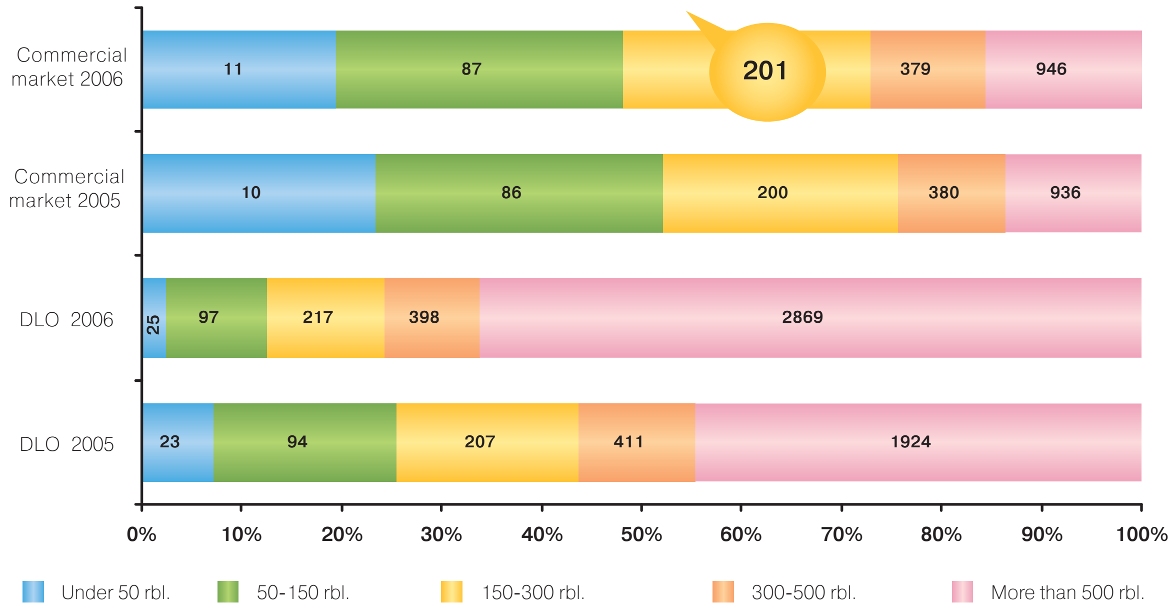
Thus, in spite of the fact that in the course of 2006 prices for many drugs in the DLO program were reduced, in 2006 the average unit price on the DLO market increased more than twice: from 155 rubles per unit in 2005 to 330 rubles in 2006.

What was taking place on Russian commercial market in 2006?

The commercial market structure and average unit cost in different price segments in 2005-2006 is presented in Diagram 20.

Diagram 20

Pharmacy and commercial markets structure in Russia in 2005-2006



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

In 2006 a reduction of demand on the low-cost drugs and increase of expensive drugs share was observed on the commercial market.

The situation could be partly caused by withdrawal of some expensive drugs from the DLO program and resulting forced demand on them on the commercial market.

It should be noted here that the average drug price in some segments increased in 2006 insignificantly and for some segments there was no change at all compared to 2005.

SALES VALUE IN THE HOSPITALS SEGMENT

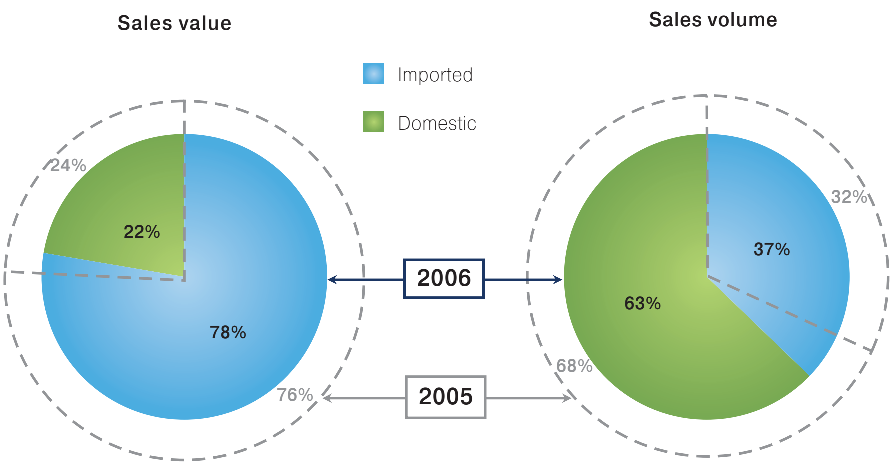
In 2006 the size of hospitals segment amounted to 1,477 million dollars (39,762 million rubles) in sales value and to 529 million units in sales volume.

In 2006 the average price of drug unit increased by 28% and reached 2.79 dollars (75.2 rubles).

The domestically produced drugs take 22% of sales value in hospitals segment with 2% reduction compared to 2005. The sales volume of domestic drugs has also reduced from 68% to 63%.

Diagram 21

Imported and domestic drugs sales proportion within hospitals segment

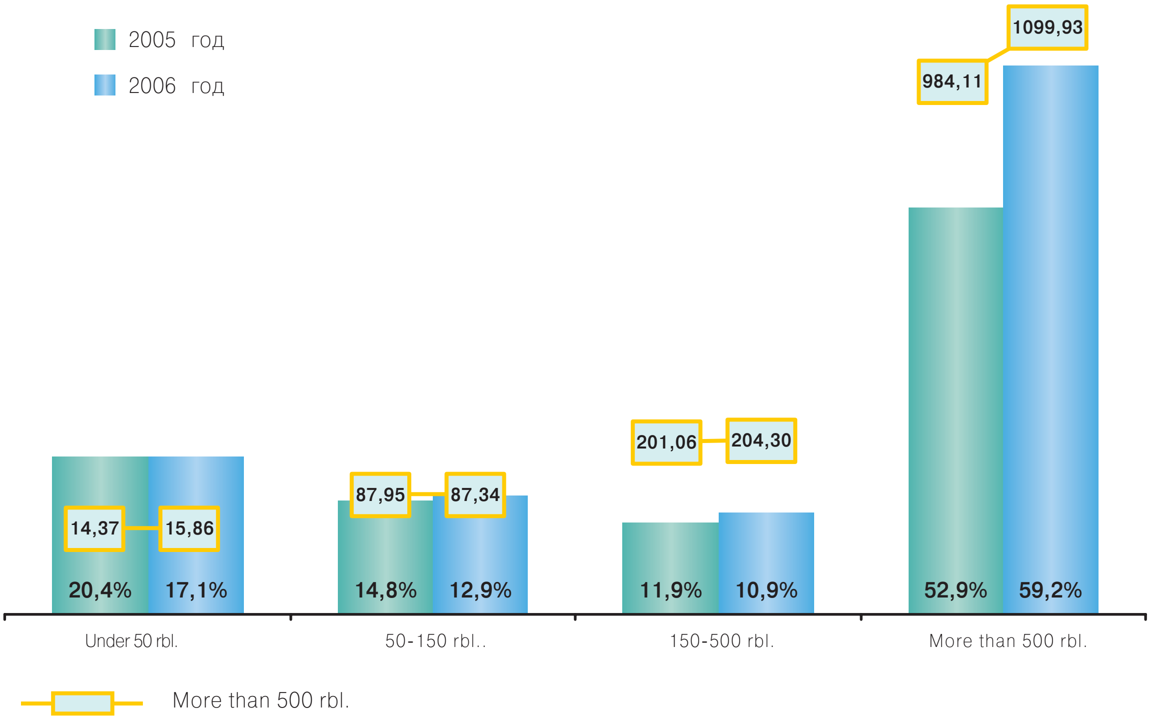


Source: Aston Consulting

In 2006 the highest growth amounting to 60% in sales value was observed in the most capacious segment of expensive drugs (over 500 rubles per unit). In this segment, by 90% taken by imported drugs, observed increase of the average unit price was considerable (see Diagram 22) .

In hospitals segment the TOP-20 list of manufacturers is headed by “Sanofi-Aventis” (8%) and the second place is taken by ASTRAZENECA UK LTD (5.6 %). The two companies preserved the positions held by them in 2005. “F.Hoffmann-La Roche Ltd” moved to the third place as a result of 75% increase of its value compared to 2005.

Hospitals segment structure by price categories in 2005-2006



Source: Aston Consulting

TOP-20 drugs manufacturers within hospitals segment

Rating 2005	Rating 2006	Manufacturers	Sales value, $ mln		Sales value increase
			2005	2006	
1	1	SANOFI-AVENTIS	7,34	8,04	32%
2	2	ASTRAZENECA UK LTD	4,94	5,58	36%
4	3	F.HOFFMANN-LA ROCHE LTD	3,39	4,92	75%
5	4	NYCOMED	3,16	3,76	44%
6	5	LEK D.D.	3,06	3,33	31%
3	6	PFIZER	4,35	3,20	-11%
7	7	GEDEON RICHTER	2,91	2,81	16%
10	8	ABOLMED	2,10	2,44	40%
12	9	SCHERING AG	1,76	2,42	65%
8	10	NPO MICROGEN	2,83	2,37	1%
9	11	BRISTOL-MYERS SQUIBB	2,66	2,02	-8%
21	12	JANSSEN PHARMACEUTICA N.V.	1,34	1,94	75%
11	13	MERCK SHARP & DOHME	1,86	1,66	7%
26	14	ELI LILLY	1,14	1,57	66%
24	15	FRESENIUS	1,17	1,52	57%
18	16	MEDOCHEMIE LTD	1,41	1,51	30%
15	17	GLAXOSMITHKLINE	1,52	1,49	18%
27	18	VEROPHARM	1,08	1,38	55%
14	19	BERLIN-CHEMIE /A.MENARINI/	1,65	1,36	0%
17	20	AKO SINTEZ	1,44	1,23	3%
		Total:		**54,57**	

Source: Aston Consulting

In 2006 TOP-20 list of trade names has significantly changed in comparison with 2005. The first two places with minimal difference between their shares are taken by “Meronem” and “Sodium Chloride”. The third place taken by “Neupogen” resulted from three times increase of its value compared to 2005.

Table 11

TOP-20 drug trade names within hospitals segment

Rating 2005	Rating 2006	Manufacturers	Sales value, $ mln		Share in segment sales value, %	
			2005	2005	2005	2005
2	1	MERONEM	31,3	40,3	2,69	2,73
1	2	SODIUM CHLORIDE	31,5	39,9	2,71	2,70
29	3	NEUPOGEN	6,3	22,1	0,54	1,48
11	4	OMNIPAQUE	10,5	20,7	0,90	1,39
101	5	GRANOCYTE	2,6	18,8	0,22	1,27
5	6	TIENAM	17,5	18,5	1,51	1,26
4	7	GLUCOSE	18,5	18,2	1,59	1,23
7	8	CLEXANE	15,2	17,2	1,30	1,17
9	9	ALBUMIN	13,5	16,7	1,16	1,13
8	10	ACTOVEGIN	13,5	16,5	1,16	1,12
23	11	RISPOLEPT	8,0	15,2	0,69	1,03
6	12	MAXIPIME	17,0	15,1	1,46	1,02
20	13	AMOKSIKLAV	8,2	14,7	0,70	1,00
3	14	CEFAZOLIN	21,8	14,0	1,87	0,95
17	15	ULTRAVIST	9,1	13,8	0,79	0,94
10	16	SULPERASON	12,8	11,4	1,11	0,78
25	17	DIPRIVAN	7,5	11,3	0,65	0,77
14	18	RHEOPOLUGLUCINUM	9,4	10,9	0,81	0,73
18	19	FRAXIPARINE	9,1	10,7	0,78	0,72
21	20	TAXOTERE	8,1	10,5	0,70	0,71
		Total:				**24,12**

Source: Aston Consulting

In 2006 Russian legislation was amended by several documents having considerable influence on the state of Russian market of nutritional supplements. The Law on Advertising adopted by State Duma in February that significantly restricted the NS promotion possibilities should be especially noted.

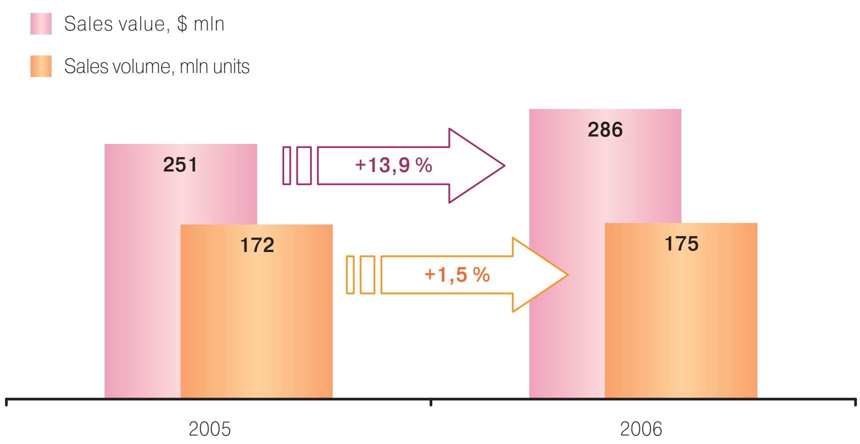
Nutritional supplements are a sort of goods with their sales strongly depending on advertising and its active promotion among potential consumers. After adoption of this law, NS manufacturers will have to find new ways to promote their products. Introduction of new brands to the market is now especially difficult for nutritional supplements as it is much harder to bring the information to the target audience.

Moscow is traditionally the leader by NS sales value, in 2006 about 20% of the overall pharmacy sales of these products were sold here.

Russian market of nutritional supplements is close to saturation. In the course of 2006 the sales volume was increasing unsteadily. In the first quarter of 2006 the sales volume of nutritional supplements sold through Russian pharmacies increased by 26% compared to the same period of 2005 and in the second quarter - by 13%. In the third quarter the growth rate significantly reduced and was about 8% and in the fourth quarter of 2006 the sales volume was even 5% below that of the same period of 2005. Since July 01, 2006 the Law on Advertising that contributed into NS sales reduction has come into force. The overall annual sales volume of NS has increased by 14% (see Diagram 23).

Diagram 23

NS sales proportion in Russia in 2005-2006



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

Note: *sales values are given in pharmacies purchasing prices, VAT included*

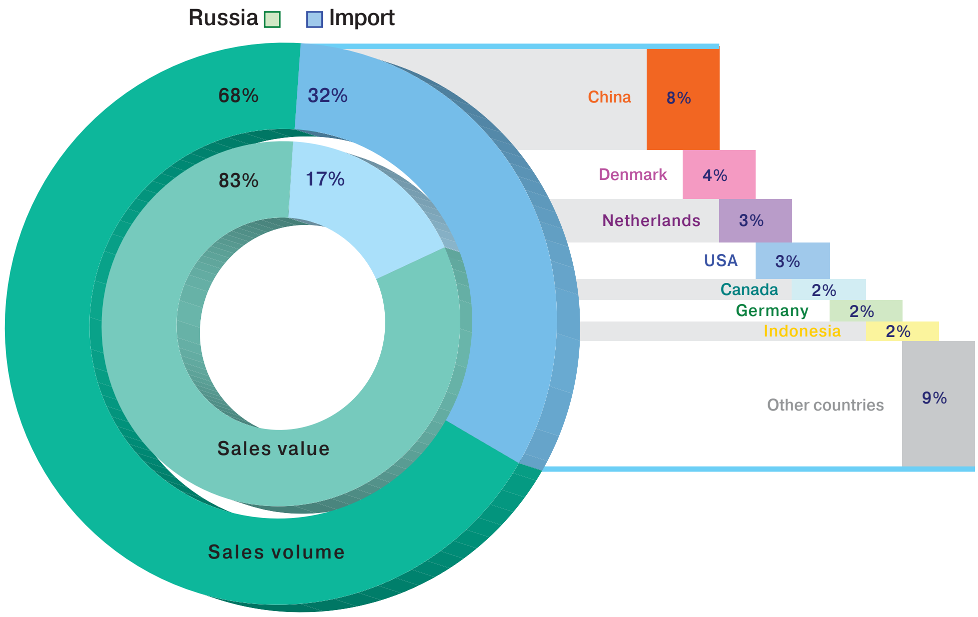
Pharmacy visitors continue to prefer the nutritional supplements of domestic manufacturers which have 70% market share in sales value and over 80% in sales volume. Among nutritional supplements of foreign manufacturers Chinese NS are the leaders, they hold 26% of the overall sales value of imported NS (see Diagram 24).

It is worth mentioning that the nutritional supplements produced in other countries of former Soviet Union are practically not present in Russian pharmacies. Their share among imported NS is negligibly small: Byelorussia - 0.9%, Ukraine - 0.09%, other countries - even less. The development of trade relations with CIS countries in terms of NS may become one of new directions of Russian market of these products in nearest future.

The pharmacy choice of nutritional supplements keeps constantly changing. Some NS are introduced to the market while others leave it due to different reasons (expiration of registration, lack of demand with resulting low sales volumes, etc.). In 2006 over 1000 NS trade names appeared in Russian pharmacies.

Diagram 24

Imported NS sales proportion with regard to the country of origin



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

Among new products "Alphavit Shkolnik" produced by "Akvion" is the sales leader. "Alphavit Shkolnik" is rebranded "Alphavit for Kids". The new name better reflects the target audience of the product - children from 7 to 14 years old. In 2006 "Akvion" has significantly widened its "Alphavit" line of products with other vitamin-mineral complexes: "Alphavit Biorhythm", "Alphavit 50+", "Alphavit Detsky Sad", "Alphavit Effect". Introduction of the new products to the market allowed "Akvion" to increase its sales volumes by over 25% and step up in the ranking of manufacturers from 5th to 3rd place (Table 12).

"Evalar", by leaving behind "Diod", the leader of last year, has become the leader of the manufacturers ranking in 2006. In 2006, "Evalar" has increased the overall sales value of its NS by over 37% and its share from 11.15% to 13.4%.

Table 12

TOP-20 drugs manufacturers within hospitals segment

Rating 2005	Rating 2006	Manufacturers	Sales value, $ mln		Sales value increase
			2005	2006	
1	1	SANOFI-AVENTIS	7,34	8,04	32%
2	2	ASTRAZENECA UK LTD	4,94	5,58	36%
4	3	F.HOFFMANN-LA ROCHE LTD	3,39	4,92	75%
5	4	NYCOMED	3,16	3,76	44%
6	5	LEK D.D.	3,06	3,33	31%
3	6	PFIZER	4,35	3,20	-11%
7	7	GEDEON RICHTER	2,91	2,81	16%
10	8	ABOLMED	2,10	2,44	40%
12	9	SCHERING AG	1,76	2,42	65%
8	10	NPO MICROGEN	2,83	2,37	1%
9	11	BRISTOL-MYERS SQUIBB	2,66	2,02	-8%
21	12	JANSSEN PHARMACEUTICA N.V.	1,34	1,94	75%
11	13	MERCK SHARP & DOHME	1,86	1,66	7%
26	14	ELI LILLY	1,14	1,57	66%
24	15	FRESENIUS	1,17	1,52	57%
18	16	MEDOCHEMIE LTD	1,41	1,51	30%
15	17	GLAXOSMITHKLINE	1,52	1,49	18%
27	18	VEROPHARM	1,08	1,38	55%
14	19	BERLIN-CHEMIE /A.MENARINI/	1,65	1,36	0%
17	20	AKO SINTEZ	1,44	1,23	3%
		Total:		**54,57**	

Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

In 2006 "Evalar" introduced to the market a considerable number of nutritional supplements. The "Turboslim" line of products was extended with two new products: "Turboslim-Coffee" and "Turboslim Cleansing Tea". "Dihydroquercetin" that appeared in pharmacies in November 2006 has gained its sales momentum fast.

In 2006 "Diod" has taken the second place. The nutritional supplement from this company named "Capilar" is the leader of trade names ranking (Table 13) has been already being successfully sold for several years. "Capilar" provides over 50% of sales value for NS produced by "Diod". New NS similar to "Capilar" may be expected on the market in the nearest future. Some of them have already appeared and are selling successfully, "Dihydroquercetin" (Evalar) being an example.

The 7th and 8th places in the manufacturers ranking are occupied by "Nycomed" and "Ekomir" that were missing in the TOP-10 ranking in 2005. The results of 2006 show that the companies have highest rates of NS sales increase among the companies being in TOP-10 list, 232% and 183%, respectively. The so significant increase resulted from introduction of new products by the companies.

In late 2005 a new product called "Borabora" from "Ekomir" for treatment of joint diseases appeared in Russian pharmacies. The sales volumes of this NS were growing very fast. In November 2005 the "Borabora" sales value amounted to 2.1 thousand dollars and by December 2006 monthly sales value increased 50-fold and reached

104 thousand dollars. Ocular system diseases are presently rather wide-spread. Consequently, in 2006 "Ekomir" in addition to "Lutein Complex" already present in its product range introduced "Lutein-Forte" and "Anthocyan-Forte". The two new products were selling as successfully as "BoraBora". Monthly sales volumes of "Lutein-Forte" since start of its sales by pharmacies (May 2006) have increased almost by a factor of 8 and that of "Anthocyan-Forte" (sold by pharmacies since November 2006) – by a factor of 7.

In 2006 "Nycomed" extended its "Gerimax NS" line with a new product "Gerimax-Drive" that has rapidly won popularity among customers. All nutritional supplements of "Gerimax" line are a success. "Gerimax Energy" that appeared in pharmacies in December 2005 by the end of 2006 increased its monthly sales by more than 10 times (from 30 thousand dollars to almost 370 thousand dollars)!

For some TOP-20 manufacturers of nutritional supplements 2006 was not so successful year. The sales value of company "Peking Jedemen Tea sales Centre" has dropped by over 30%. The sales of this manufacturer are by over 70% determined by "Jedemen slimming capsules" that have their sales value reduced by 27% in 2006. This drop is explained by appearance of two domestic competitors of this NS on Russian pharmaceutical market: "Turboslim-night" and "Turboslim-day".

As for trade names, as well as it was in the previous year the leader is "Capilar" (by "Diod") who left behind "Jedemen slimming capsules", the leader of 2005. The increase of this NS sales value amounted to 45% with its share increased from 5.69% to 7.20%. "Jedemen slimming capsules" occupy the second position and "Bilberry-Forte" stepped up from 5th place and has taken the 3rd place in 2006 (Table 13).

Table 13

TOP-20 NS trade names in Russia in 2006

Rating 2005	Rating 2006	Brands	Sales value, $ mln		Sales value increase
			2005	2006	
2	1	CAPILAR	14,2	20,6	45,2%
1	2	JEDEMEN SLIMMING	14,3	10,4	-27,3%
4	3	BILBERRY-FORTE	6,3	7,7	22,9%
3	4	ALPHAVIT	8,4	7,0	-15,9%
21	5	LUTEIN COMPLEX	2,1	5,7	175,1%
20	6	OVESOL	2,2	5,3	137,4%
5	7	VIARDO	5,7	5,0	-13,2%
6	8	GREEN DOCTOR SAGE	4,3	4,0	-7,5%
14	9	LACTOFILTRUM	2,7	3,8	40,4%
31	10	LEY DE	1,6	3,5	123,8%
-	11	TURBOSLIM-DAY	0,0	3,5	-
-	12	TURBOSLIM-NIGHT	0,0	3,4	-
-	13	GERIMAX ENERGY	0,0	3,3	-
7	14	OKULIST	3,4	3,1	-8,4%
41	15	KUDESAN	1,1	2,8	162,9%
-	16	SEALEX	0,0	2,8	-
18	17	CHERNEGA	2,3	2,5	11,0%
40	18	VUKA-VUKA	1,1	2,4	120,3%
8	19	ATEROKLEFIT	3,3	2,4	-27,8%
35	20	CALCIUM-ACTIVE	1,4	2,4	74,4%

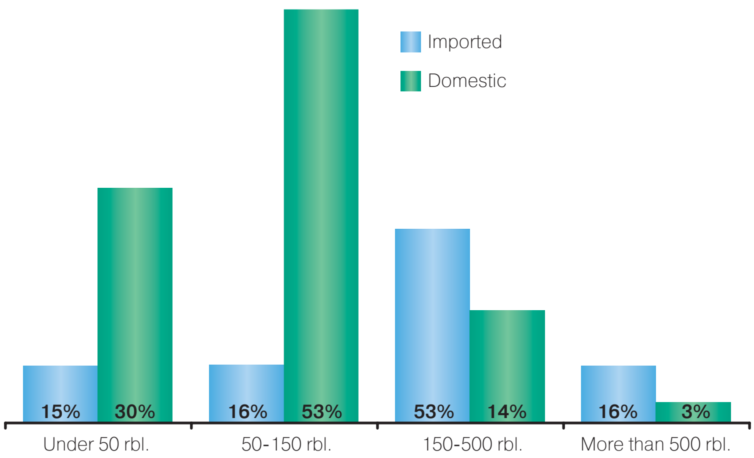
Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

In the TOP-20 list three nutritional supplements should be highlighted for the highest increase of sales value in 2006: “Turboslim-day”, “Turboslim-night” and”Gerimax Energy”.

As for prices for nutritional supplements, the highest demand is observed for domestic NS with cost lower than 150 rubles per one nominal unit and imported NS priced from 150 to 500 rubles (see Diagram 25).

Diagram 25

Imported NS sales correlation with regard to the price categories in Russia in 2006



Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

According to the existing classifier NS are divided into 15 sections. Section 2 “Nutritional supplements mainly affecting tissue metabolism” is the most saturated both by the number of trade names (over 2000) and by the overall sales value (28%) (see Table 14).

Table 14

Proportion of NS sales according to NS Federal Registry sections in 2006

№	NS Federal Registry section	Share in total sales value, %	Leader within the sector	Share in NS section sales value, %
1	Section 2. Nutritional supplements mainly affecting tissue metabolism	28,36	BILBERRY-FORTE	9,64
2	Section 9. Nutritional supplements for body weight control	14,12	JEDEMEN SLIMMING	26,50
3	Section 8. Nutritional supplements supporting digestive organs functions	11,35	OVESOL	16,76
4	Section 5. Nutritional supplements – sources of antioxidants and substances affecting energy metabolism	8,58	CAPILAR	85,12
5	Section 14. Various NS	7,74	LUTEIN COMPLEX	26,11
6	Section 1. Nutritional supplements affecting function of central nervous system	5,72	GERIMAX ENERGY	20,07
7	Section 11. Nutritional supplements supporting function of musculoskeletal system	5,37	ARTROVIT	13,63
8	Section 12. Nutritional supplements affecting humoral regulation of metabolism	5,34	SEALEX	18,42
9	Section 6. Nutritional supplements affecting function of cardiovascular system	3,66	ATEROKLEFIT	23,36
10	Section 3. Nutritional supplements - sources of minerals	3,08	CALCIUM-ACTIVE	27,12
11	Section 13. Nutritional supplements affecting detoxication and facilitating elimination of foreign and toxic substances	2,57	LEY DE	49,02
12	Section 7. Nutritional supplements supporting respiratory organ functions	1,64	BADGER FAT	14,71
13	Section 10. Nutritional supplements reducing risk of genitourinary diseases	1,02	PROLYT SUPER	19,50
14	Section 4. Nutritional supplements supporting function of immune system	0,98	SANA-SOL FOR SICKLY CHILDREN	27,28
15	Section 15. Nutritional supplements affecting lactation	0,48	HIPP FOR NURSING MOTHERS	57,78

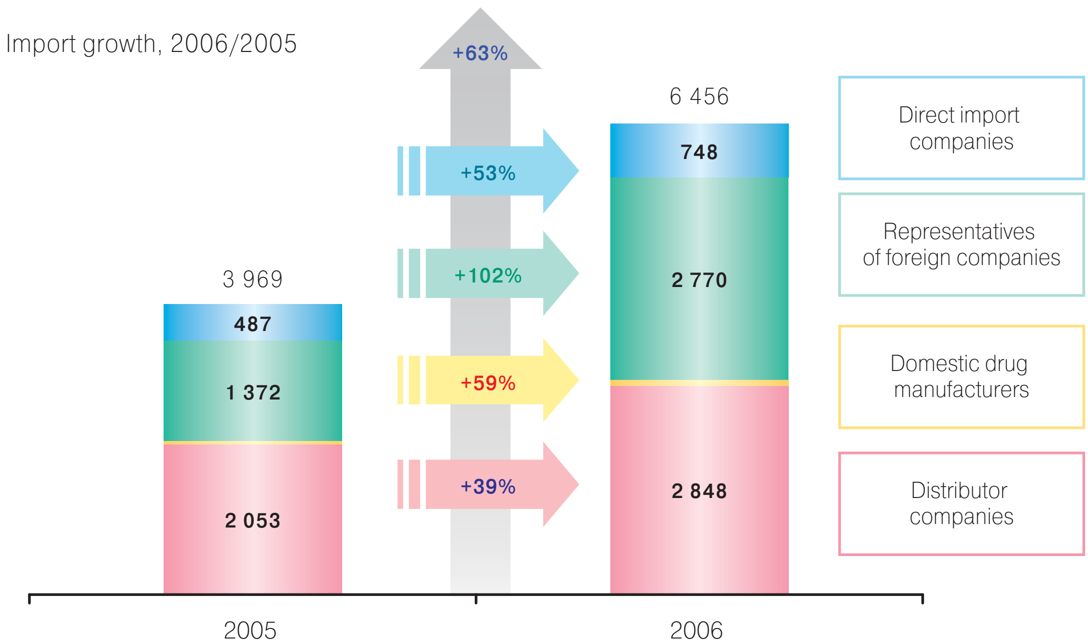
Source: Monthly retail audit of the Russian pharmaceutical market by DSM Group. **ISO 9001:2000**

Russian market of nutritional supplements is close to saturation, however, there are some perspectives for its development: development of NS import and export dealing between CIS countries, appearance of new NS groups, widening the product range for existing sections of nutritional supplements, especially for those with restricted choice. Also, it is necessary to better explain to people what NS is and to create more advanced NS classifier so that it reflects current market state.

Diagram 26 shows drug import value in Russia in 2006.

Diagram 26

Import value



Source: Diamond Vision

Drug import value in Russia in 2006 amounted to 6.5 billion dollars (in customs prices[3]), which is 63% higher than that in 2005.

Table 15 shows the shares of different groups of drug importers in Russia (by import value of certain group in 2004 and 2005).

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

Table 15

Shares in import value of different groups of drug importers in Russia in 2005 and 2006

Rating	Importers	Shares by import value, %	
		2005	2006
1	Distributor companies	51,73	44,12
2	Representatives of foreign companies	34,58	42,91
3	Direct import companies	12,28	11,58
4	Domestic drug manufacturers	1,41	1,38
	Total:	**100**	**100**
	Import value, $ mln.	**3 969**	**6 456**

Source: Diamond Vision

Drug import value in Russia in 2006 amounted to 6.5 billion dollars (in customs prices), which is 63% higher than that in 2005.

Table 15 shows the shares of different groups of drug importers in Russia (by import value of certain group in 2004 and 2005).

Table 16

TOP-10 representatives of foreign manufacturers by drugs import value in 2006

Rating	Representatives of foreign manufacturers	Shares by import value of the group "Representatives…", % 2006	Increase to 2005
1	Servier	10,7	141%
2	Aventis Pharma	10,3	103%
3	IHCC	8,0	207%
4	Solvay Pharmaceuticals	7,4	141%
5	Roche Moscow	7,2	101%
6	Novartis Pharma	6,9	545%
7	Norbert	5,8	33%
8	GlaxoSmithKline Healthcare	5,3	1279%
9	Nycomed Distribution Center	4,9	79%
10	Shering AG	4,5	2531%
	Total:	**71,0**	

Source: Diamond Vision

The overall value of drug import for all TOP-10 representatives of foreign manufacturers increased by more than 2.5 times. A considerable increase is observed for the companies that take top places in the ranking by consumption value within the DLO program: “Schering AG”, “GLaxosmithkline”, “Novartis”.

The share of the group “Representatives of foreign companies” has grown at the expense of reduction from 52% to 44% of import value of the group “Distributor companies”.

Thus, the channel when the imported drugs are supplied to the domestic distributor via warehouses situated in Russia and owned by the foreign drug manufacturer is getting more common. If the group “Representatives of foreign companies” showed in 2006 an over 100% growth, that of the group “Distributor companies” is more modest, just 39%; this is even below the overall increase of value of imported to Russia drugs.

Table 17 shows TOP 10 distributors by drug import value in Russia.

Table 17

TOP-10 distributors by drugs import value in Russia in 2006

Rating	Distributors	Shares by import value of the group “Distributor companies”%	
		2005	2006
1	CV “Protek”	27,35	24,70
2	SIA International	24,05	24,38
3	Rosta	6,83	6,23
4	Biotek	5,55	4,52
5	Genezis	2,09	4,44
6	Katren	2,41	3,93
7	Apteka-Holding	3,37	3,06
8	Moron	2,14	2,99
9	Dominanta-Servis	3,01	2,86
10	Shreya Corp.	2,98	2,23
	Total:	**79,78**	**79,34**
	Import value of the group, $ mln.	**2 053**	**2 848**

Source: Diamond Vision

As is shown in Table 17, “CV Protek” and “SIA International” remain the largest distributors by import value in the group “Distributor companies”. The other distributors fall behind significantly in ranking.

The share of 10 largest distributors-importers in the total import value of the “Distributor companies” group did not change and amounts to about 80% in 2006.

Table 18 shows TOP 20 drug manufacturers by drug import value in Russia with regard to all groups of importers.

Table 18

TOP-20 manufacturers by drug import value with regard to all group of importers in Russia in 2005 and 2006

Rating 2005	Rating 2006	Manufacturers	Shares by import value, $, % 2005	Shares by import value, $, % 2006
1	1	SANOFI-AVENTIS	8,77	6,60
2	2	NOVARTIS	5,95	6,07
17	3	SCHERING AG	1,89	4,37
9	4	JANSSEN PHARMACEUTICA N.V.	2,67	3,93
3	5	A.MENARINI GROUP LTD	4,89	3,84
12	6	SERVIER	2,53	3,67
4	7	NOVO NORDISK	3,52	3,38
14	8	SOLVAY PHARMACEUTICALS B.V.	2,34	3,22
7	9	F.HOFFMANN-LA ROCHE LTD	2,93	3,01
11	10	GLAXOSMITHKLINE	2,62	2,68
6	11	PFIZER	3,12	2,60
29	12	ABBOTT GMBH & CO.KG	0,89	2,59
5	13	GEDEON RICHTER	3,15	2,52
8	14	NYCOMED	2,87	2,37
10	15	LEK D.D.	2,65	2,29
18	16	ASTRAZENECA UK LTD	1,79	2,23
15	17	BOEHRINGER INGELHEIM	1,96	2,16
13	18	KRKA	2,47	2,12
21	19	RATIOPHARM INTERNATIONAL GMBH	1,36	1,43
16	20	ELI LILLY	1,91	1,28
		Total:	-	**62,36**

Source: Diamond Vision

"Sanofi-Aventis", "Novartis" and "Schering AG" are the largest manufacturers by drug import value in Russia in 2006.

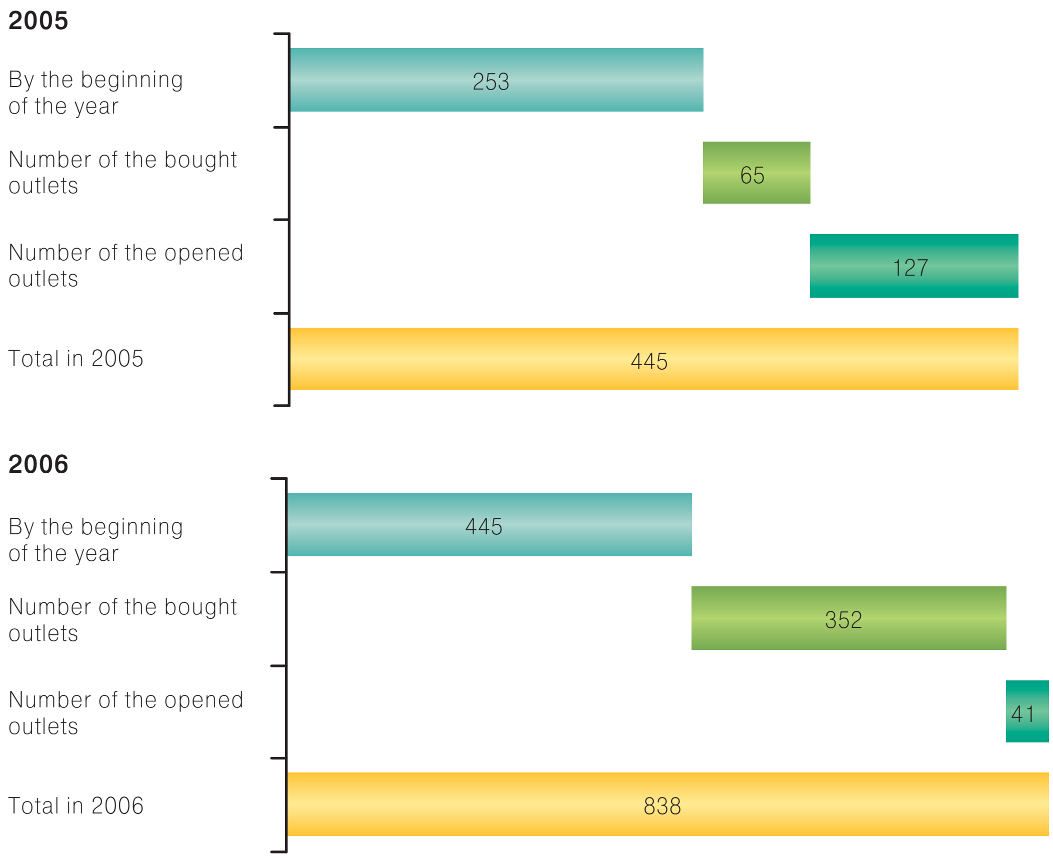
The share of TOP 20 ready-to-use drug manufacturers by import value in Russia in 2006 amounted to 62%.

What can happen to the alignment of forces on the retail market? Is there a chance to reach and leave behind the pharmacy network "36.6", a permanent leader of Russian pharmaceutical market. Once, It seemed that the target is very close and the Protek group passed the competitors and in addition to pharmacy network "Rigla" already owned by it purchased pharmacy network "O_3" listed in TOP-10 pharmacy network ranking. All analysts right away rushed to sum up the turnover of the two networks expecting interesting results. The total was 355 million dollars proving the expectations. Many exclaimed that the consolidated company is distanced from the leader by mere 9%!!! But it was early to celebrate. If we look at the combined reports by all the merged networks and own pharmacies of "36.6" the picture becomes quite different. The consolidated value of "Rigla"+"O_3" is then 40% behind "36.6".

How will the situation develop in the future? It is hard to imagine what can stop the development of pharmacy networks. As before, pharmacy networks will be to a great extent developing by acquiring other networks. All tendencies of 2006 support this assumption. For example, in 2006 "36.6" grew up by 393 pharmacies, where 41 of them were new and 352 were acquired (see Diagram 27).

Diagram 27

Increase dynamics of the Pharmacy chain "36,6"



Source: official data of the Pharmacy chain "36,6"

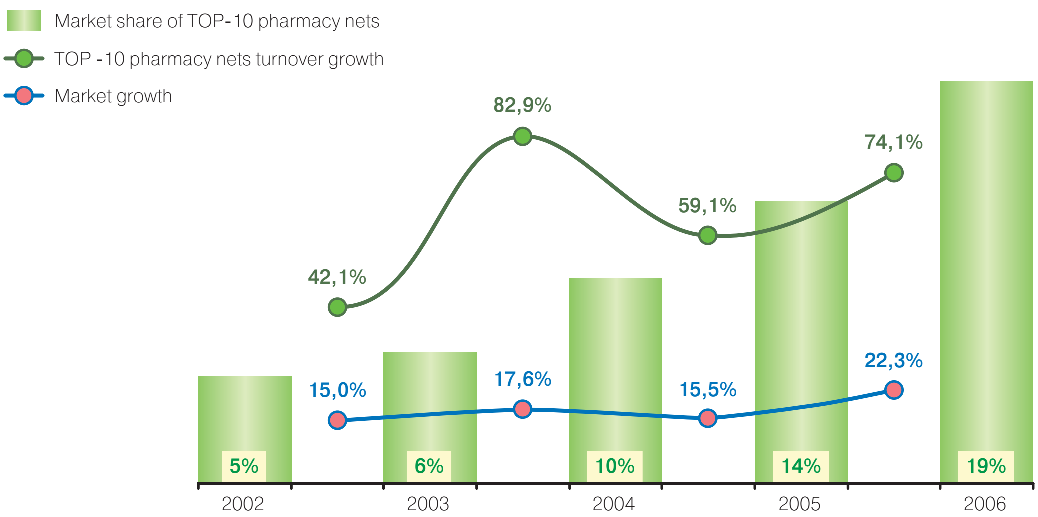
The leaders will inevitably keep growing in the future.

In 2006 the consolidated share of the first 10 pharmacy networks in Russia was about 20% (compare to 65% in 2003; see Diagram 28). As estimated by DSM Group, this figure will amount to about 60% by 2010.

What can be purchased? This is the most frequently asked question. It is of interest not only for representatives of pharmacy networks but also for investment companies. It is not a secret that the pharmacy itself and its brand are not of primary interest in purchasing of a pharmacy network. The first thing being bought is the place and it is known that a good place is always already occupied. Small regional networks will be acquired one after another. The main expectation in 2007 and in future years will be sells of big networks. The state networks are the most likely candidates; only in TOP-20 list there are 5 of them. As before, the main potential customers of the networks are "36.6" and "Rigla". There is a chance that someone else, maybe even foreign companies, will try to intervene in their dispute but this is not likely. Large Western participants are mostly interested in the networks with wide regional coverage and high market value. They are not used to peddling. In 2006 they had this chance as a possibility to purchase "O_3" but they missed it.

Diagram 28

Pharmacy nets concentration



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

Is it competition or synergism? Are the brand pharmacy networks competing with each other? It is an interesting question. Based on intuition, they say that the networks compete. Intuition is a useful thing but we still made up our mind to check this hypothesis and investigated this issue. What are the essential conclusions? The coverage of TOP-10 pharmacy networks is 42 regions. Both "36.6" and Rigla (with "O_3") are presented in TOP-5 lists of only 14 regions. The case when the pharmacies are situated in the same building is common and this disposition does not interfere with their normal work. The real battle for customers will start when the concentration of leading pharmacy networks exceeds 60%.

What can be concluded from the ranking? Pharmacy networks are growing and developing.

Table 19

Pharmacy nets rating by sales value in 2006

Rating	Pharmacy nets	Number of retail outlets	Turnover in 2006, $ mln	Turnover growth 2006 to 2005
1	Pharmacy chain 36.6	838	385	94%
2	Rigla	490	247	129%
3	Mosoblfarmacia	496	186	-
4	Farmakor	195	140	22%
5	Implozia	340	135	50%
6	Stolychnye Apteki	240	130	-
7	O3	144	108	29%
8	Vita	209	103	72%
9	Staryi Lekar	104	93	43%
10	Gubernskie Apteki	410	87	-
11	Pervaya Pomosch	114	82	44%
12	Doctor Stoletov	247	75	28%
13	Naturprodukt	180	70	17%
14	Biotek	350	57	36%
15	SamsonFarma	8	56	39%
16	Klassika (Chelyabinsk)	50	56	75%
17	Tyumen Farmacia	198	46	28%
18	Farmland	128	46	24%
19	Zero-three	77	41	71%
20	Lipetsk Farmacia	162	39	18%

Source: DSM Group. **ISO 9001:2000**, own data of the pharmacy nets

DISTRIBUTION SEGMENT OF THE PHARMACEUTICAL MARKET

In 2006 there were several significant events in the distribution segment of the pharmaceutical market. Some of them have already caused the realignment of forces in 2006 while the influence of others may tell upon the market in the future:

1. Foreign capital flows into the distribution segment:

- "Apteka Holding" is acquired by European pharmaceutical group "Alliance Unichem", and then, after merge of "Alliance Unichem" and "Boots" it became a part of "Alliance Boots", a leading international pharmaceutical group in the beauty and health field. On March 12, 2007, "Apteka Holding" was renamed to "Alliance Health-care" following the total re-branding of all "Alliance Boots" wholesale and distribution divisions.

- Finnish "Tamro Group" became an owner of 42.5% shares of "ROSTA".

2. In 2006 diversification of the distribution segment continued:

- "ROSTA" is developing its own pharmacy network with brand name "Raduga".

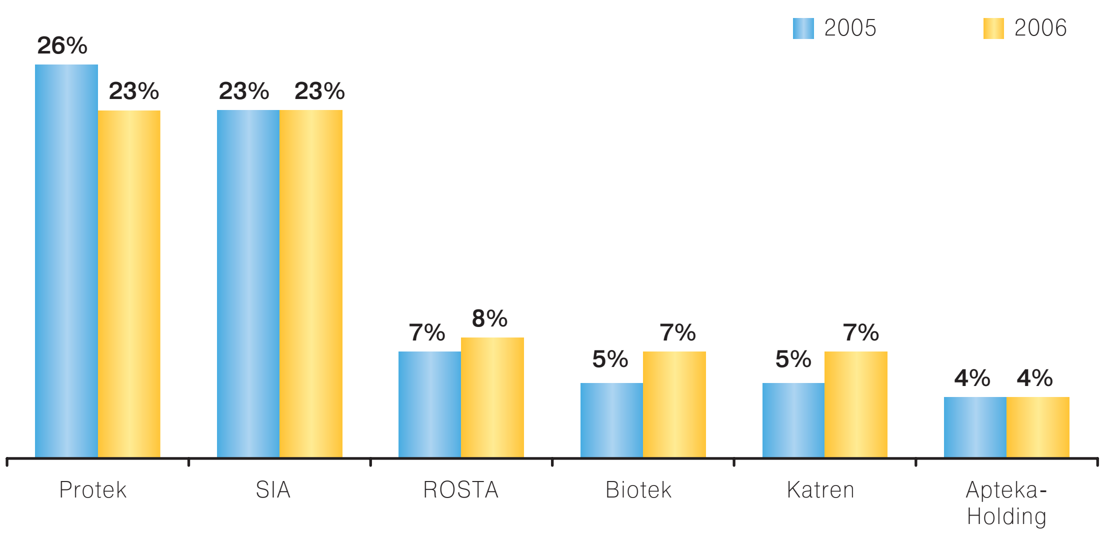
- The biggest deal for selling the pharmacy network "O_3" is finished by victory of Protek group that won the tender.

- In October 2006 "Apteka Holding" opened in Moscow pharmaceutical supermarket "Moya lyubimaya apteka" that became a 5th sales point under this brand.

3. A burnout in the Moscow warehouse of "Protek" undermined the company positions in the commercial segment of the pharmaceutical market.

Diagram 29

Leading distributors shares in 2005-2006



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

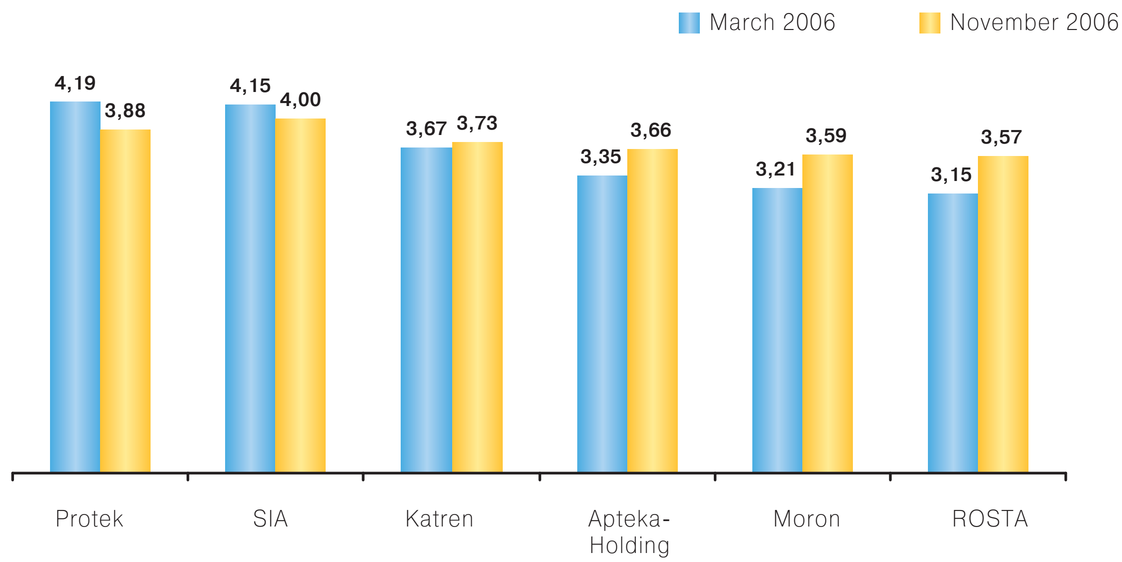
The results of 2006 showed that there are two leaders in the distribution segment of the pharmaceutical market: “CV Protek” and “SIA International” with there shares being approximately the same and equal to 23%.

It should be noted that in spite of the fire in “Protek”, “SIA” failed to make use of the situation and achieve any essential increase of its market share. The main reason for that is the distributors participation in the DLO program (it is actual not only for the leaders between distributors). By participating in this program the distributors have to withdraw some resources that results in a possibility for the competitors who are not in the program to freely develop on the commercial market. “Katren” is a striking example of work only on the commercial market being a success.

Success of a distributor company can be evaluated by a number of parameters. They are annual turnover, net profit, the number of branches and the number of employees, the number of exclusive positions in the product range, etc. Nevertheless, one of the conclusive estimates of distributor success is still the mark set to the distributor by its own clients. Presently, the product range offered by the top distributors has practically leveled; most companies offer to clients comparable service of close quality and compete only in terms of prices.

Diagram 30

How pharmacy workers estimate distributors’ service (5-scored scale)



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

Pharmacies evaluate the service provided by different distributors: the product range, prices and operation to be almost the same. The average score is 3.74 (on a five-point scale).

As a result we see that in 2007 the struggle will take place not only for the first place. The distributor who is to take the third place is still unclear: “Biotek”, “ROSTA” and “Katren” are the three companies being the candidates.

MANUFACTURING

Manufacturing is, probably, the most stable and conservative segment of a pharmaceutical market. What else? The plants are built; the drugs regularly come off production line. But that's not all. 2006 surprised us by a number of outstanding events that have changed or will change in the future the alignment of forces in this segment as well.

The trends developing in this segment are characteristic both to other segments of Russian market and to the international pharmaceutical market, they are "acquisitions and mergers":

1. In August 2006 Pharmstandard has purchased for 146 million dollars a 100% share of "Masterlek". "Masterlek" is Russian pharmaceutical company specializing in the segment of antiviral and antifungal drugs. By acquisition of "Masterlek" "Pharmstandard" has added to its product range another 15 brands including so well-known ones as "Arbidol", "Amixinum" and "Flucostat". Acquisition of "Masterlek" provides further development of "Pharmstandard" business due to entrance to new segments of the pharmaceutical market. The acquisition allowed Pharmstandard to find itself among three leaders in the commercial segment of drugs in 2006 and, also, to get to the 10th place of the manufacturers ranking by consolidated sales in all segments of the pharmaceutical market of drugs.

2. In November 2006 "Actavis" announced the acquisition of 51% equity in "ZIO Zdorovie", Russian manufacturing pharmaceutical company. The total price of the share is 47 million euros (60 million dollars), at that 23 million euros (30 million dollars) will be invested into modernization of "ZIO Zdorovie" plant. The deal will allow "Actavis" to move manufacturing of a series of products to Russia that will ensure company's presence on Russian market and its participation in the state tenders.

3. In 2006 "Bayer AG" and "Schering AG", two leading manufacturers on the international pharmaceutical market, have finished their merge; this resulted in appearance of a new company named "Bayer Schering Pharma AG". The merger allows the concern to rapidly expand its presence on specialized markets: the main specialization of "Bayer Health Care" is production of OTC-drugs (61% of sales value) while 92% of "Schering AG" sales value belongs to Rx drugs (oral contraception, gynecology, oncology, etc.). The considerably increased turnover of "Bayer Schering Pharma AG" will allow the company to get into TOP-10 list of manufacturers on Russian pharmaceutical market in 2006 at the 7th place with approximately 3% market share.

4. In late March, 2006, "Sanofi-Aventis" became a biggest shareholder of "Zentiva", Czech drug manufacturer, after it purchased a 25% share of the Czech company for 430.3 million euros. By making this acquisition, the leader of pharmaceutical market tries to extend its portfolio of generic drugs.

Another outstanding trend of 2006 is a construction by foreign companies of their own premises on the territory of Russia. "Gedeon Richter" was a pioneer in this direction as it opened "Gedeon Richter-RUS" in Russia in 2001.

In 2006 two foreign manufacturers started construction of their own premises, namely:

1. "Hemofarm concern A.D." is building in Kaluga region a plant to produce 1.5 billion tablets a year. Five drugs of six planned to be produced by the plant are sold in the frames of the DLO program. The migration of production to Russia will help Hemofarm to avoid administrative barriers for drug importers being introduced by Russian Ministry of Health and Social Development. The pharmaceutical products made in Russia will be exported to European countries and countries of Former Soviet Union.

2. " Servier", a French manufacturer, is building an own plant in Podolsk district of Moscow region. The plant is to produce 1 billion tablets and capsules annually. The new enterprise will produce cardiologic,

neuropsychiatric and antiallergic drugs and drugs to treat influenza and other acute respiratory viral infections.

3. "Pharm-Sintez", a Moscow manufacturer of drugs for oncology that previously used off-site plants for drug production, decided to build its own production facility. The company is investing about 35 million dollars in construction of a plant to produce generic drugs in Istra district of Moscow region. "Pharm-Sintez" plans to spend another 10 million dollars to purchase one building from Research Institute of Chemistry located at Shosse Entuziastov, Moscow to use it for production of a substance for original drugs produced by the company.

In the end a 2006 TOP-20 manufacturers ranking is presented (see Table 20).

Table 20

TOP-20 drug manufacturers by sales value on the Russian pharmaceutical market in 2005-2006

Rating 2005	Rating 2006	Manufacturers	Sales value, $ mln		Sales value increase
			2005	2006	
1	1	SANOFI-AVENTIS	431	517	19,8%
5	2	NOVARTIS	211	341	62,0%
11	3	F.HOFFMANN-LA ROCHE LTD	159	331	108,4%
16	4	JANSSEN PHARMACEUTICA N.V.	105	331	214,4%
2	5	BERLIN-CHEMIE /A.MENARINI/	281	303	8,1%
3	6	GEDEON RICHTER	243	264	8,8%
4	7	PFIZER	236	248	4,8%
9	8	SERVIER	168	241	43,7%
6	9	NYCOMED	188	233	24,2%
7	10	PHARMSTANDARD	181	232	28,6%
15	11	ASTRAZENECA UK LTD	118	219	85,8%
13	12	SCHERING AG	130	218	67,9%
10	13	LEK D.D.	165	216	30,6%
8	14	KRKA	170	204	19,7%
12	15	GLAXOSMITHKLINE	141	171	21,0%
14	16	SOLVAY PHARMACEUTICALS B.V.	127	168	33,0%
19	17	BOEHRINGER INGELHEIM	98	142	44,6%
18	18	ELI LILLY	99	135	35,8%
20	19	NOVO NORDISK	97	133	37,0%
26	20	SCHERING-PLOUGH	77	121	57,4%

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

Note: *sales values are given in pharmacies purchasing prices, VAT included*

This is how it looks today! It cannot be excluded that the processes that started in the segment "Manufacturing" in 2006 will cause considerable realignment of forces among drug manufacturers.

About DSM Group

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

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

RESEARCH

QMS meets ISO 9001:2000 requirements

- Monthly retail audit of the Russian pharmaceutical market, which you can see in 25 working days
- Hospital audit
- Reimbursement database
- Drugs and substances import database
- Multifactor analysis of competitors surrounding
- Monitoring and analysis of drug sales by distributors
- Monthly analysis of market capacity, tendencies and forecasts
- Ad-hoc research
- Pharmaceutical mass-media — pharmacies workers' estimation

ADVERTISING

- Design and corporate identity creation
- Souvenirs for pharmaceutical market
- Printing (QMS meets ISO 9001:2000 requirements)
- Promo actions and 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 pharmaceutics, marketing and advertising in the staff.
Our experts' opinion is highly rated by pharmaceutical and business public.
With us you will use your company's potential more effectively, so reinforce and develop your business

We are always glad to see you in our office:
7/2, 5-th Yamskogo Polya St.
Russia 125040 Moscow
Tel: +7 495 780-72-64
Fax: +7 495 780-72-65
E-mail: info@dsm.ru
http://www.dsm.ru