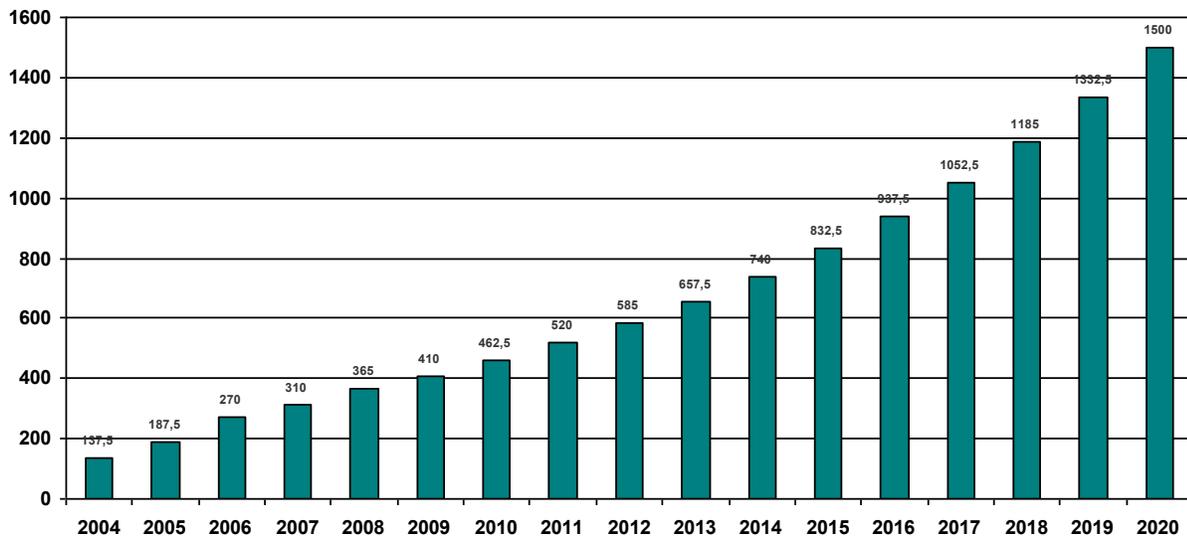


CURRENT AND FUTURE TRENDS IN RUSSIA'S PHARMACEUTICAL MARKET

The goal of this whitepaper is to give you a top-line overview of Russian pharmaceutical market.

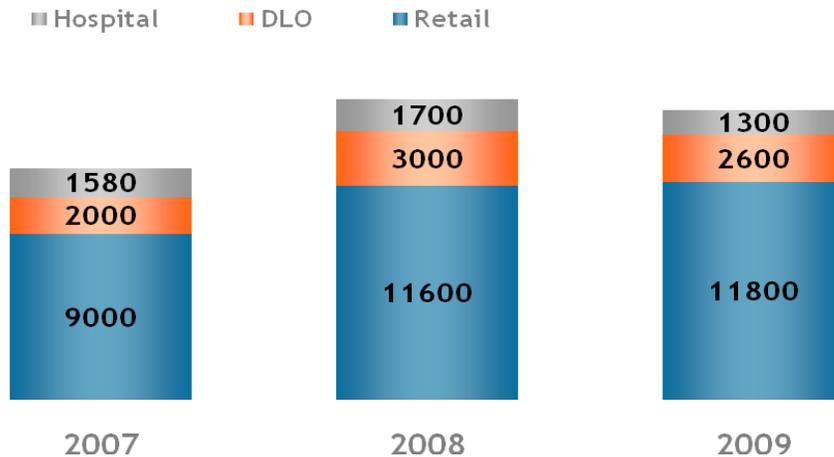
Despite global economic downturn Russian pharmaceutical market remains strong and continues to attract foreign companies. With sales of medicinal products exponentially rising over the last 10 years and remaining grossly unaffected over the last 24 months (see graphs 1 and 2), both large and midsize Pharma are actively expanding its presence in this market. The forecast for the next 10 years suggests a robust growth of pharmaceutical sales.

Graph 1. Russian Pharmaceutical Market Growth Forecast (retail prices, in bln Rbl, including VAT)



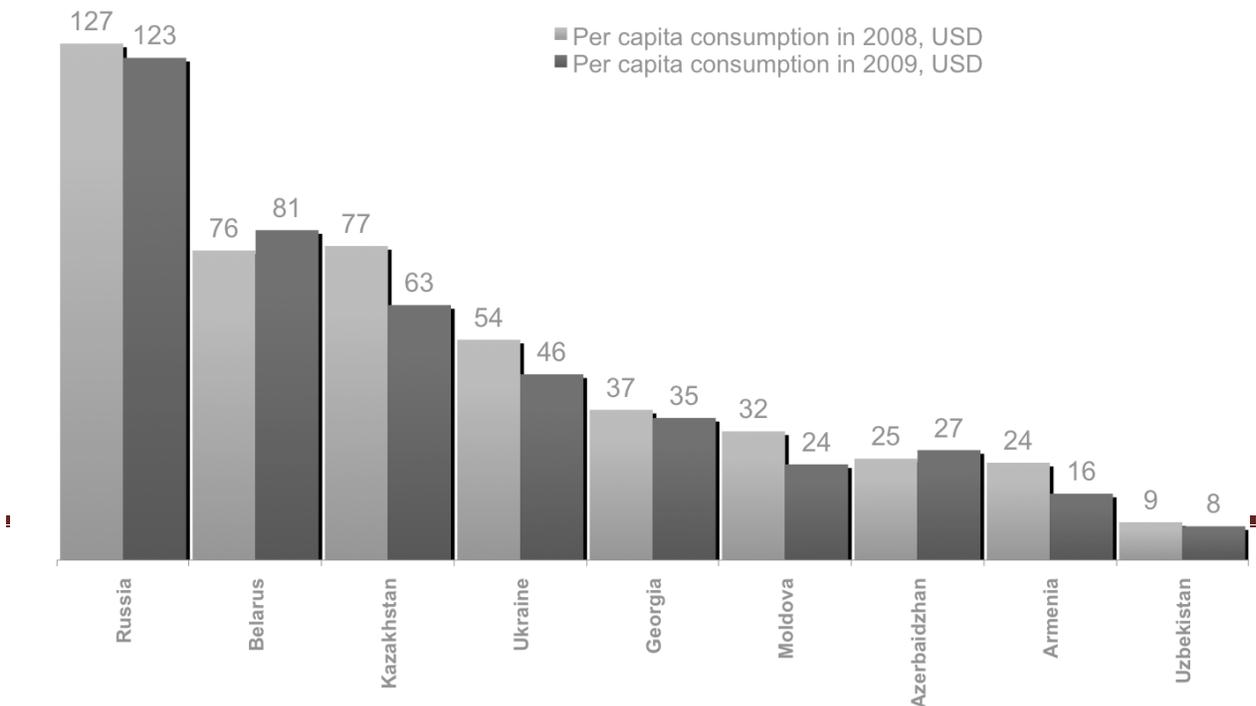
A schematic representation of different sectors of the market I presented in graph 2. It shows that that Russian Pharmaceutical Market is mostly a retail market.

Graph 2. Russian pharmaceutical market 2007-2009 (mln USD)



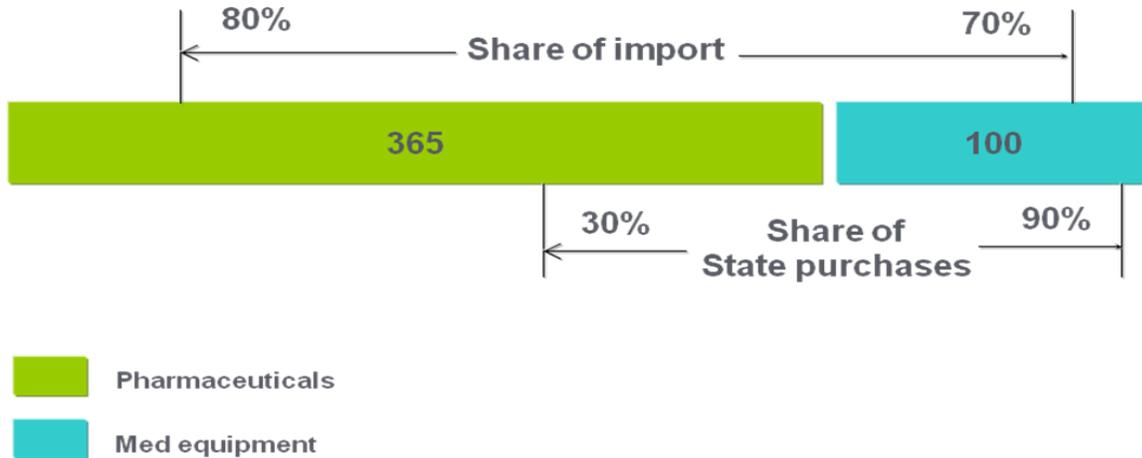
Russia is clearly a leader in per capita consumption among CIS countries (graph 3). Recently Russian government has vowed to increase per capita consumption to the level of European countries. This is a part of comprehensive program designed to increase life expectancy and QoL.

Graph 3. Per capita consumption of pharmaceuticals, 2008-2009



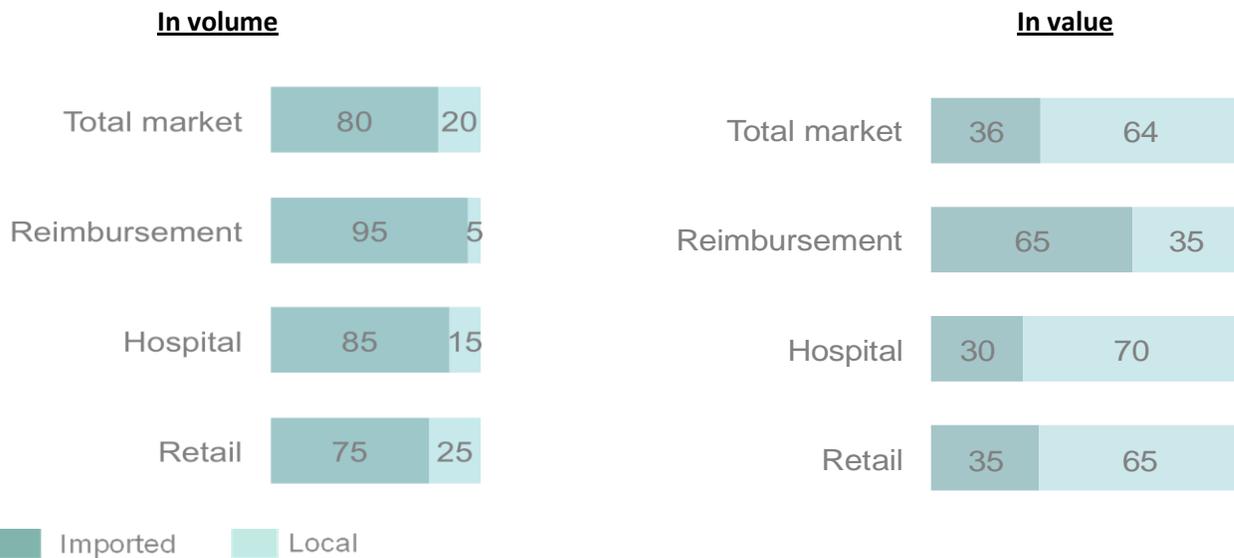
At present time Russian pharmaceutical and medical device market is hugely dependent on outside import. There is a difference in allocation of state resources when it comes to medical equipment, which is mostly state funded and pharmaceuticals, mostly a retail market (Graph 4).

Graph 4. Russian pharmaceutical and medical equipment market, 2008 (Bln Rbl)



While the volume of locally produced pharmaceuticals is relatively high, its total value when compared to imported goods is modest at best (Graph 5).

Graph 5. Russian Pharmaceutical Market Structure in 2009 – imported vs. locally manufactured



There is increasing pressure from the government to ensure Russia's stable socio-economic development. One of the state priorities is preservation and improvement of the Russian population's health through healthy life style and further increase in accessibility and quality of medical care.

Major tasks of the Strategy include:

- population increase up to 145 mln people
- increase of life expectancy to 75 years
- decrease of newborn death rate to 7,5 to 1,000 (a 20% reduction from 2007)
- maternity death rate decrease to 18,6 to 100,000 (a 15,7% reduction from 2007)
- formation of the healthy life style of the Russian population
- increase of accessibility and quality of medical aid, guaranteed to the population of the Russian Federation

2020 Initiative

A new "2020 initiative" devised by central and local government aims to improve the domestic pharmaceutical industry competitiveness through harmonization of Russian standards of medication development and production with international requirements. A great emphasis is being placed on technical re-equipment of the Russian pharmaceutical industry. The overarching goal is to increase domestic products share in the internal market consumption up to 50 % (in value terms) by 2020, change the assortment of medications sold in Russia, including increase of innovative products up to 60% in value terms, and increase pharmaceutical products export by an 8-fold.

The initial strategy appears to lie in development and production of analogues of foreign generic medicines, i.e. substitution of imported pharmaceuticals by the locally produced medicines with the full manufacturing cycle in Russia. As a subsequent step Russia would like to get more active in the process of new molecule development and new substance manufacturing.

To accomplish this task the Russian government is mandating an obligatory transition of the domestic pharmaceutical manufacturers to GMP standards by 2011, creation of new educational programs and modification of existing ones in order to enhance staff qualification.

It appears that along with very strong statements, there is a certain degree of commitment to aforementioned innovations (table 1).

Table 1. The total finance for 2009-2020 (mln. Rbl, in prices of Feb 2009):

Initiative	Cost
Transition to GMP standards	36 000
Pharmaceutical industry educational programs	35 220
New compound development	196 400

Conclusions and interpretation

While it looks like Russia is finally realizing the need for establishing local pharmaceutical R&D and manufacturing, it has a very long way to go in order to accomplish this very challenging task.

There is currently a complete paucity of infrastructure; know-how and qualified workforce that can help make a quantitative impact on Russian domestic pharmaceutical development.

We believe that Russia will become much more active in the field of generic drug manufacturing. As to the issue of new drug development, there are very strong doubts as to whether the necessary resources can be made available to achieve competitiveness on the international market.

The risks to foreign Pharma include substitution of brand name medicines with local versions or alternative treatments that may or may not be as effective. We believe that a major collaborative effort should be undertaken in helping Russia realize its short- and long-term plans while reinforcing comprehensive educational initiatives aimed at making sure that the transition process is logical and successful.