Healthcare Sector Development: Russia’s Top Priority

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- The consumer boom has ended but growth should still be above the EU average. Consumption and debt statistics are still well below EU averages except for mobiles
- Salaries are still rising in real terms, albeit this is not a good trend overall
- Russia has the largest consumer base in Europe with a total population of almost 143 million and 55 million households. Customs Union raises it to over 200 million. Russia is the world's fifth biggest consumer market by spending volume
- Retail spending totaled just under $700 bln last year. More than 50% was non-food
- Based on the OECD definition of Middle Class, 55% of Russian households are in that category compared to 30% in Brazil, 21% in China and 11% in India. Wealthy households are also more numerous with 15% of Russian households boasting annual income above $50 000 compared to 5% in Brazil, 2% in China and 1% in India

Source: LBC

Russia - Top-10 Imports From USA

US exports to Russia amounted to $16.8 billion or 5.3% of its overall imports

Machines, engines, pumps: $3.3 billion

Plastics: $552.6 million

Vehicles: $3.2 billion

Meat: $358.7 million

Medical equipment: $1.4 billion

Iron or steel products: $353 million

Electronic equipment: $1 billion

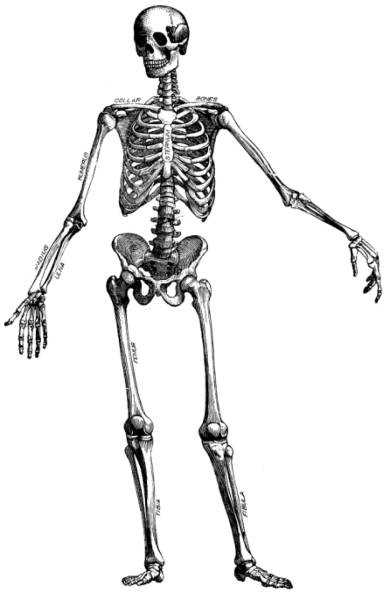
Other chemical goods: $351.5 millio

Pharmaceuticals: $822.2 million

Perfumes, cosmetics: $257.1 million

Source: WTO

Russia - Rating of Illnesses



- 41,7% - respiratory disease
- 11,8% - injury, poisoning
- 6,2% - diseases of the genitourinary system
- 6% - skin diseases
- 4,4% - eye diseases
- 4,4% - diseases of the digestive system
- 4,2% - diseases of the musculoskeletal system
- 4% - infectious diseases
- 3,5% - ear diseases
- 3,4% - diseases of the circulatory system
- 2,5% - complications of pregnancy and childbirth
- 2% - diseases of the nervous system
- 1,5% - neoplasms
- 1,3% - endocrine system diseases
- 2,9% - other diseases

Source: Rosstat, Kursor

Pharmaceutical Sector, Russia - Market Highlights

By the end of 2013, Russia was on the **7th** place among other pharmaceutical markets.

The volume of the Russian pharma market was around **$26 bn** in the end-user prices in 2013, which is 14% higher than in 2012

Over **1000** companies were operating on the Russian pharmaceutical market in 2013.

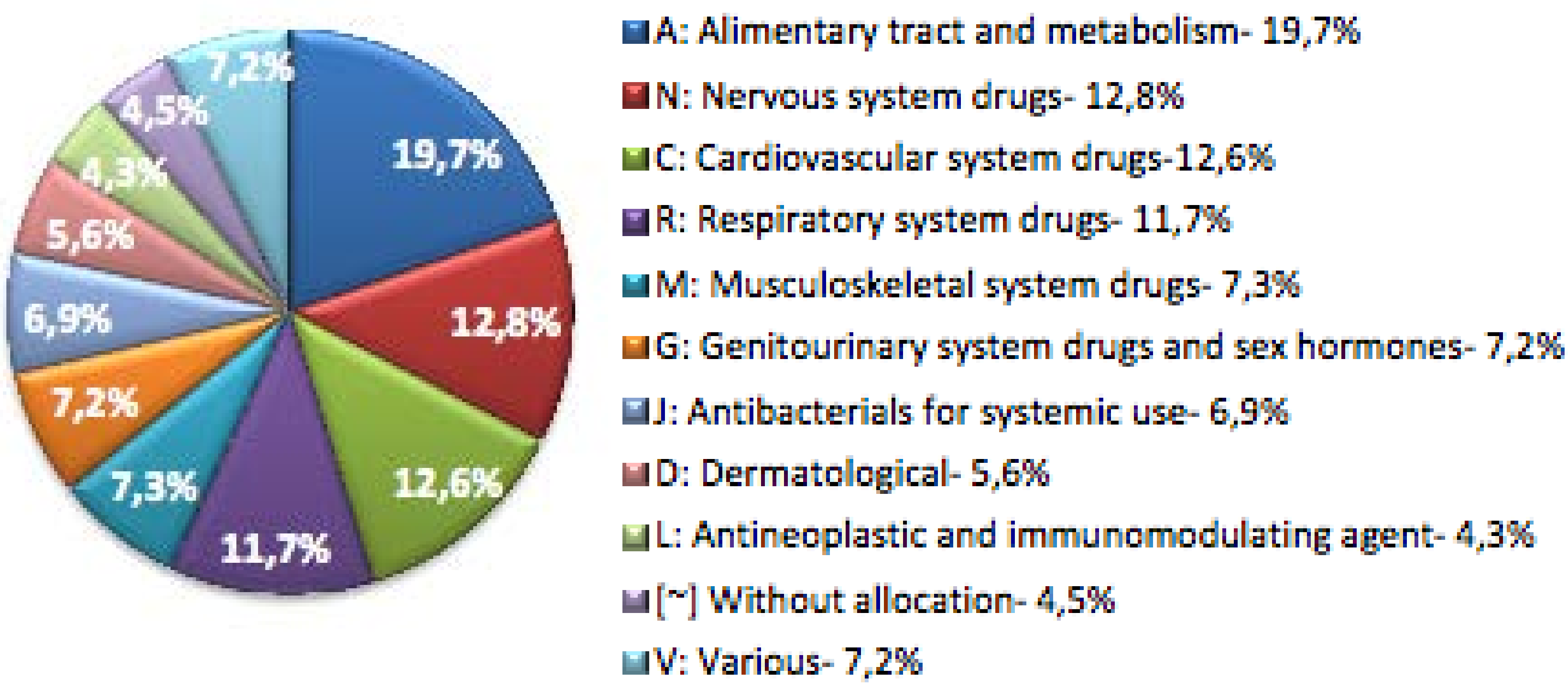
TOP 20 manufacturers are responsible for **55%** of the overall pharma market sales value

More than **375** new brands of medicines have been launched in 2013 in Russia.

The majority of new medicines are produced by foreign manufacturers. Only **69** new brands belong to domestic companies

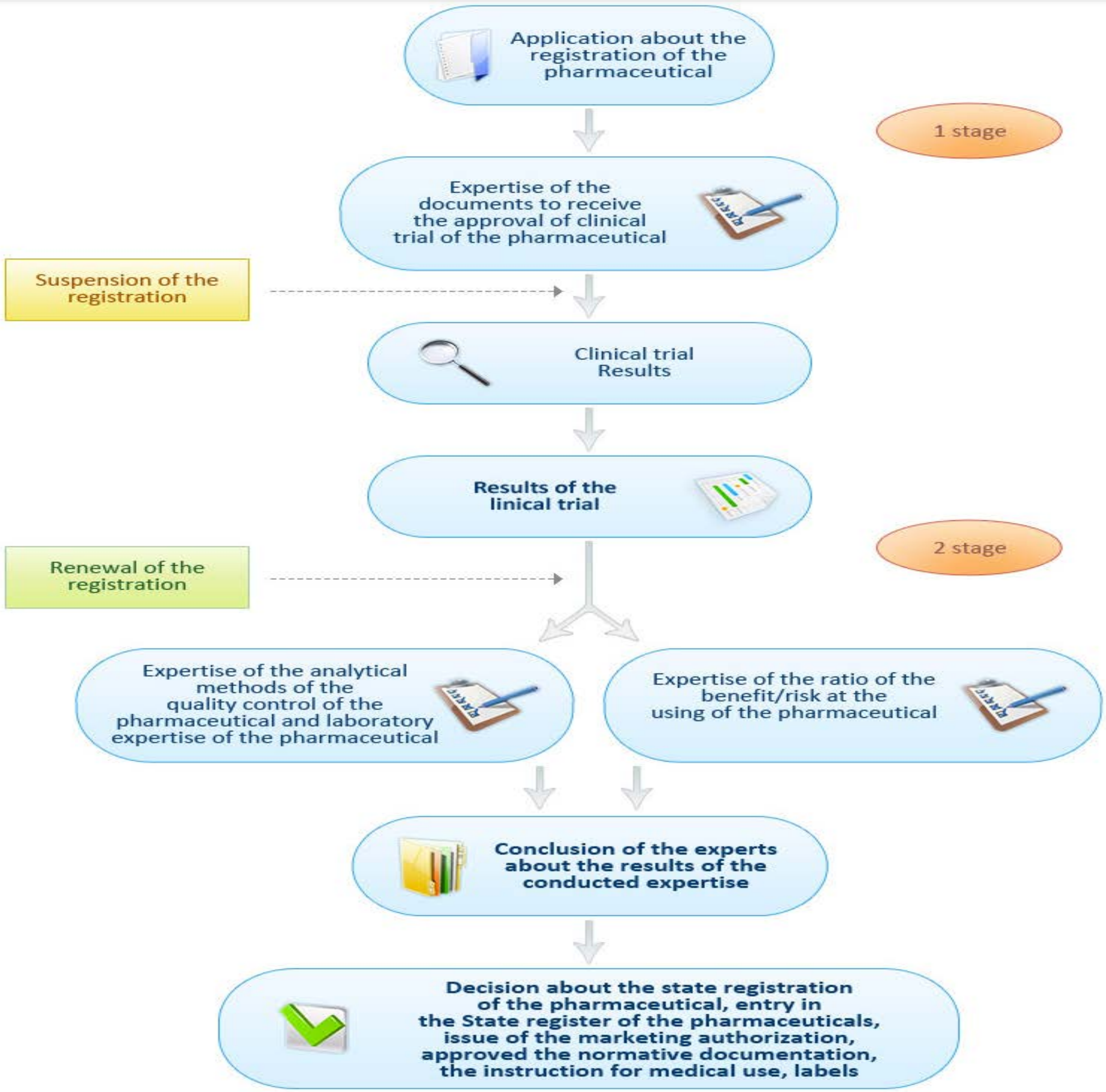
The largest import volume distributors in 2013 were R-PHARM, PROTEK, the Katren. Together, the share of the three leading distributors of medications is **48%** of the total market share

Pharmaceutical Sector, Russia - Drug Groups



Source: MIT

Registration of Drugs



Source: Medex Consult Agency

The Russian market for medical equipment and supplies is estimated at **$6 bn**. This puts Russia's healthcare market among the top 20 in the world

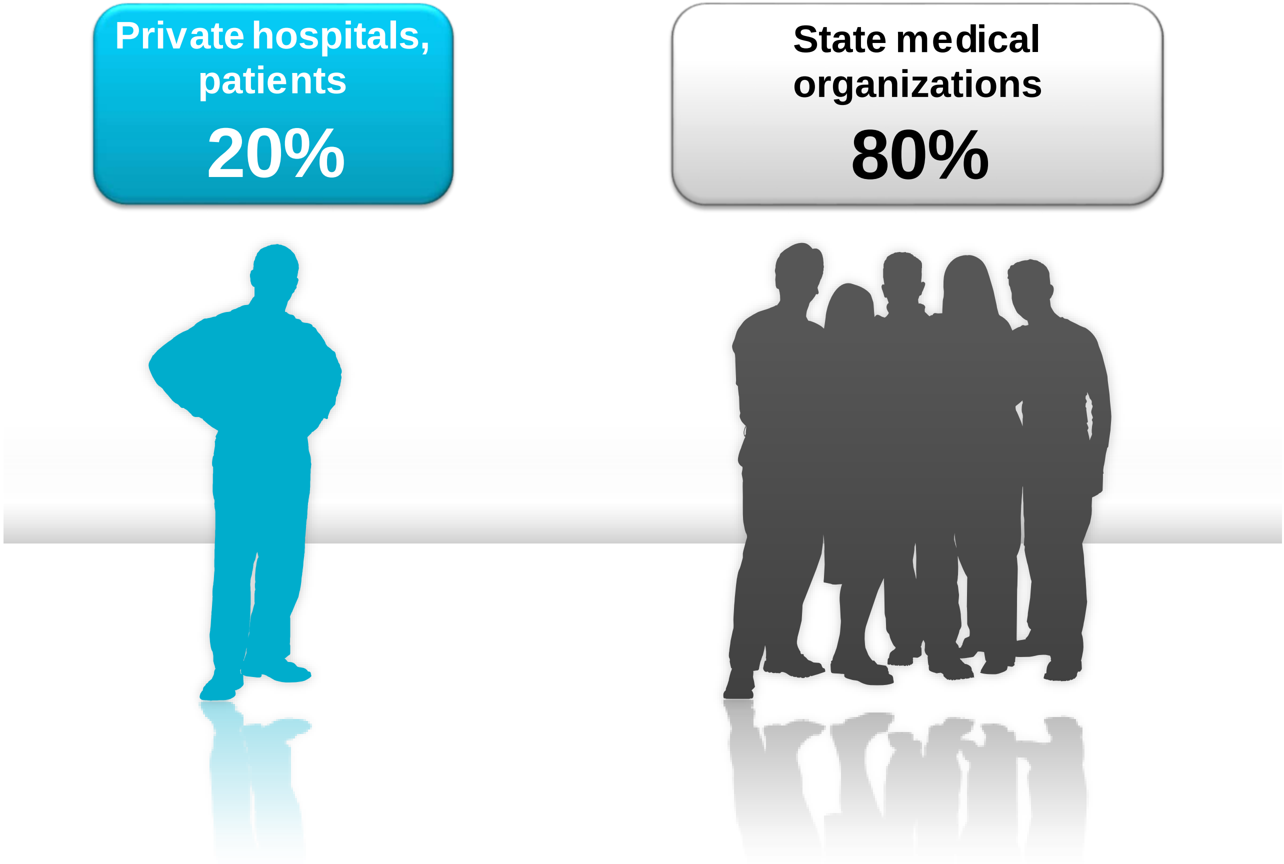
Between 2012 and 2020 the share of hospitals, clinics and medical centers equipped in compliance with the new standards should increase from **43%** to **100%**

It is expected that volume of medical equipment produced domestically should increase from **$568 mln** in 2014 to **$2,4 bn** in 2020

Source: Bureau Group of Companies

Medical Equipment Sector, Russia - Market Highlights

Russian government organizations account for about 80% of all medical equipment purchases
Private hospitals and patients represent the other 20%



Source: DMG Group

Medical Equipment Sector, Russia - Imports

In 2013, the Russian medical market volume was $7,24 billion with 83,5% ($5,57 billion) of equipment supplied by foreign manufacturers

Imported medical Equipment **83,5%**

For the last three years, a growing number of cheaper analogs from China and Pakistan have entered the Russian market in large volumes

Medtech market in Russia is heavily dependent on imports

Germany **40-45%**

USA **20-25%**

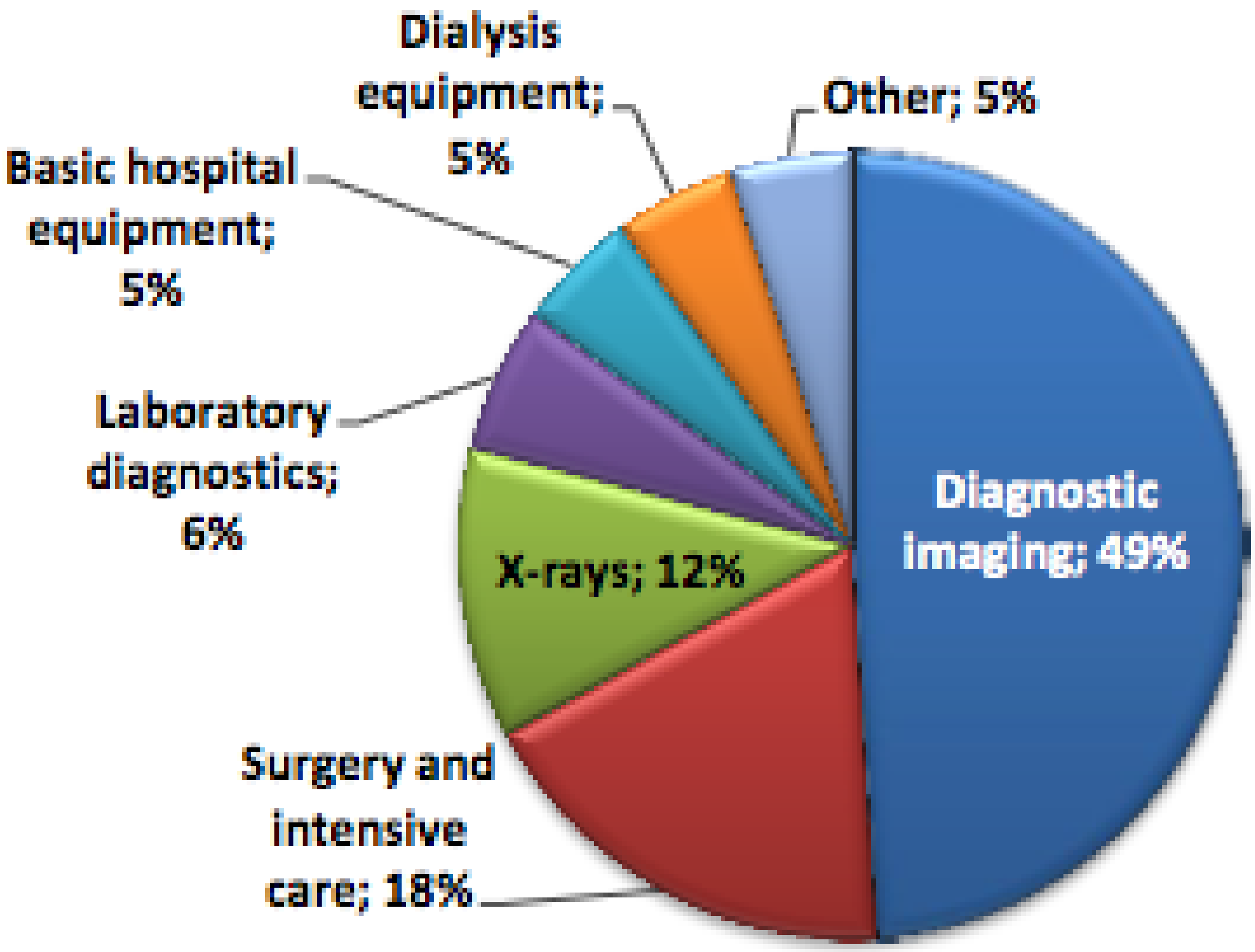
Japan **10%**

Italy **10%**

France **10%**

Source: Bureau Group of Companies

Medical Equipment Sector, Russia - Market Structure

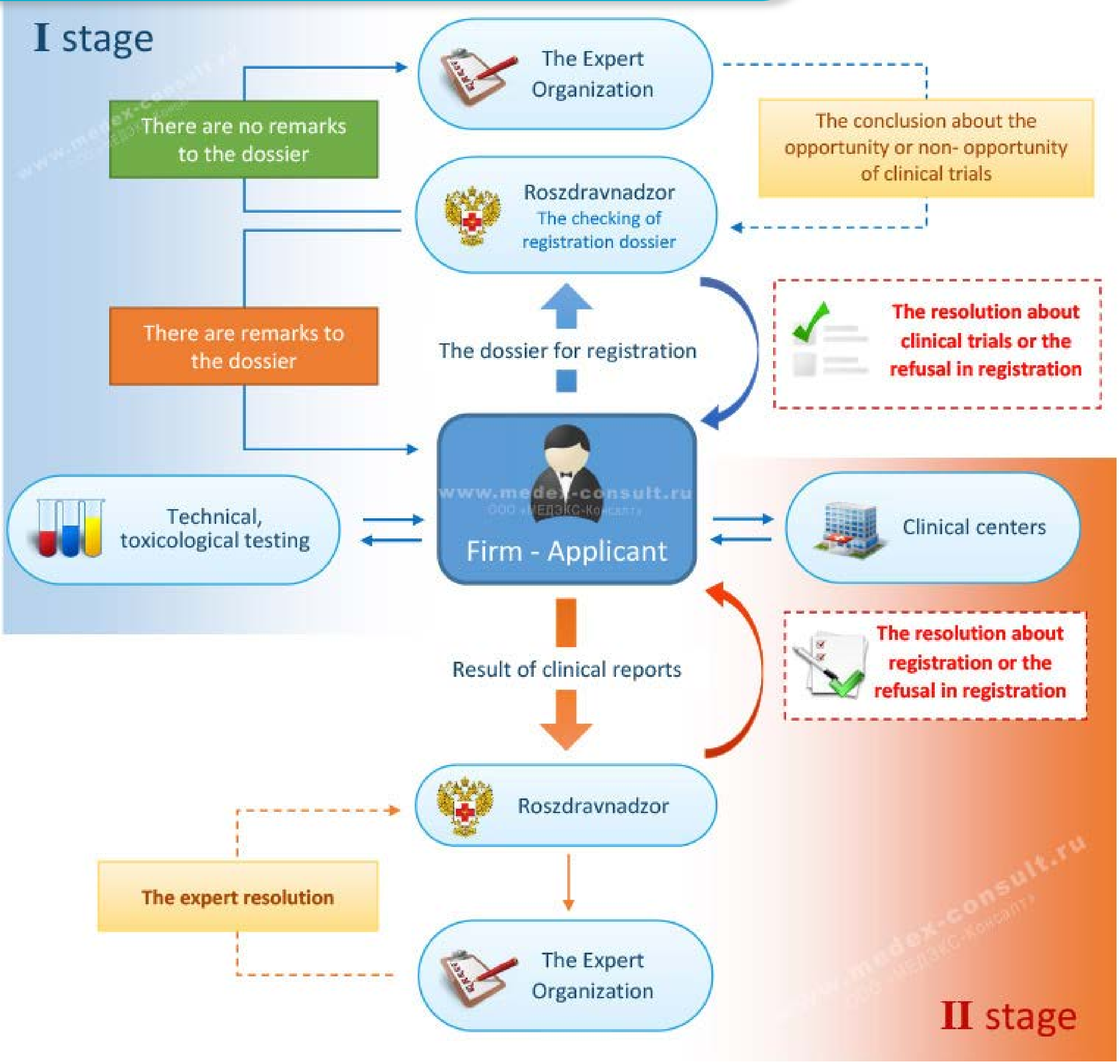


Source: MIT

Medical Equipment Sector, Russia - Opportunities

- visualization
- diagnostics
- cardiovascular
- orthopedics
- ophthalmology
- laboratory diagnostics
- urology equipment

Registration of Medical Equipment and Devices

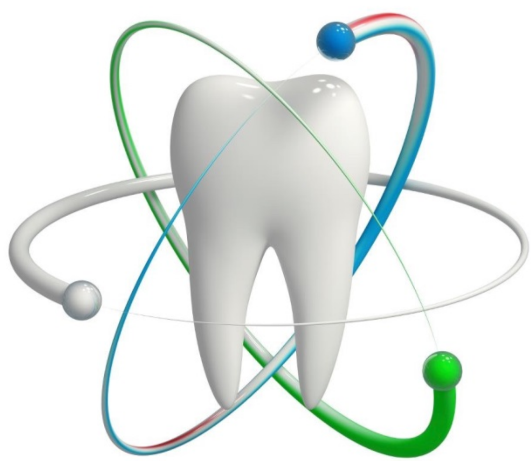


Source: Medex Consult Agency

Dental Sector, Russia - Market Highlights

- Dentistry as a branch of Russian health care is one of the most advanced and promising areas of Russian medicine
- Elite clinics experience fierce competition and suffer for a lack of patients. However, middle and low middle-income class markets are not yet saturated
- Implants and orthopedics treatments are the most demanded services in dentistry
- Monthly returns of one dental office working with implants is $100 000
- There are dozens of Western dental clinics operating in Moscow

	150 000 visits annually 4,5 dentists for every 10 000 people	
Clinics	11 143	6 000
Dentists and dental surgeons	> 85 000	> 25 000
Dental technicians	> 20 500	> 15 000
Education	Dental schools 51	Annually graduated ~ 8 200



Source: Russian Dental Association

- The Russian dental market has an impressive potential

- Private clinics buy modern equipment, including dental lasers, modern X-Ray equipment and tooth-bleaching systems. Advanced private clinics offer implantation and oral hygiene treatments and generally comply with Western standards

- There are about 500 distributors of dental products operating in Russia. The major distributors are located in Moscow and work in other regions through smaller local distributors or through regional representatives

- There are strict product registration and certification procedures necessary for the release of dental equipment into the market. The registration and certification can be complicated and time-consuming. It may require a regular market presence of the manufacturer or an authorized representative with competent Russian language skills and local market knowledge in Moscow to be able to complete the process

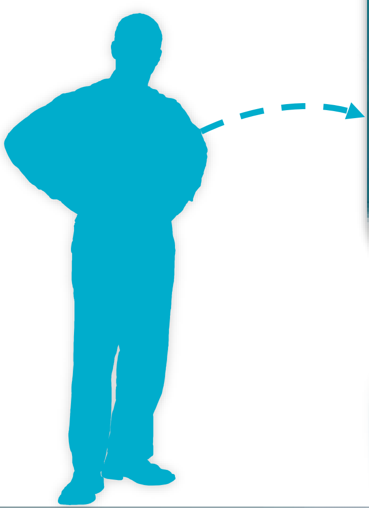
Ways of Entering Russian Healthcare Market

Taking into account current market situation there are four ways of doing business in the Healthcare sector in Russia:

- cooperation with the Russian distributors
- localization of production (construction of all necessary infrastructure from scratch/ cooperation with the Russian manufacturer/transfer of technologies)
- joining medical and pharmaceutical clusters
- buying/acquiring already existing business on the territory of Russia

Ways of Entering Russian Healthcare Market - Distribution

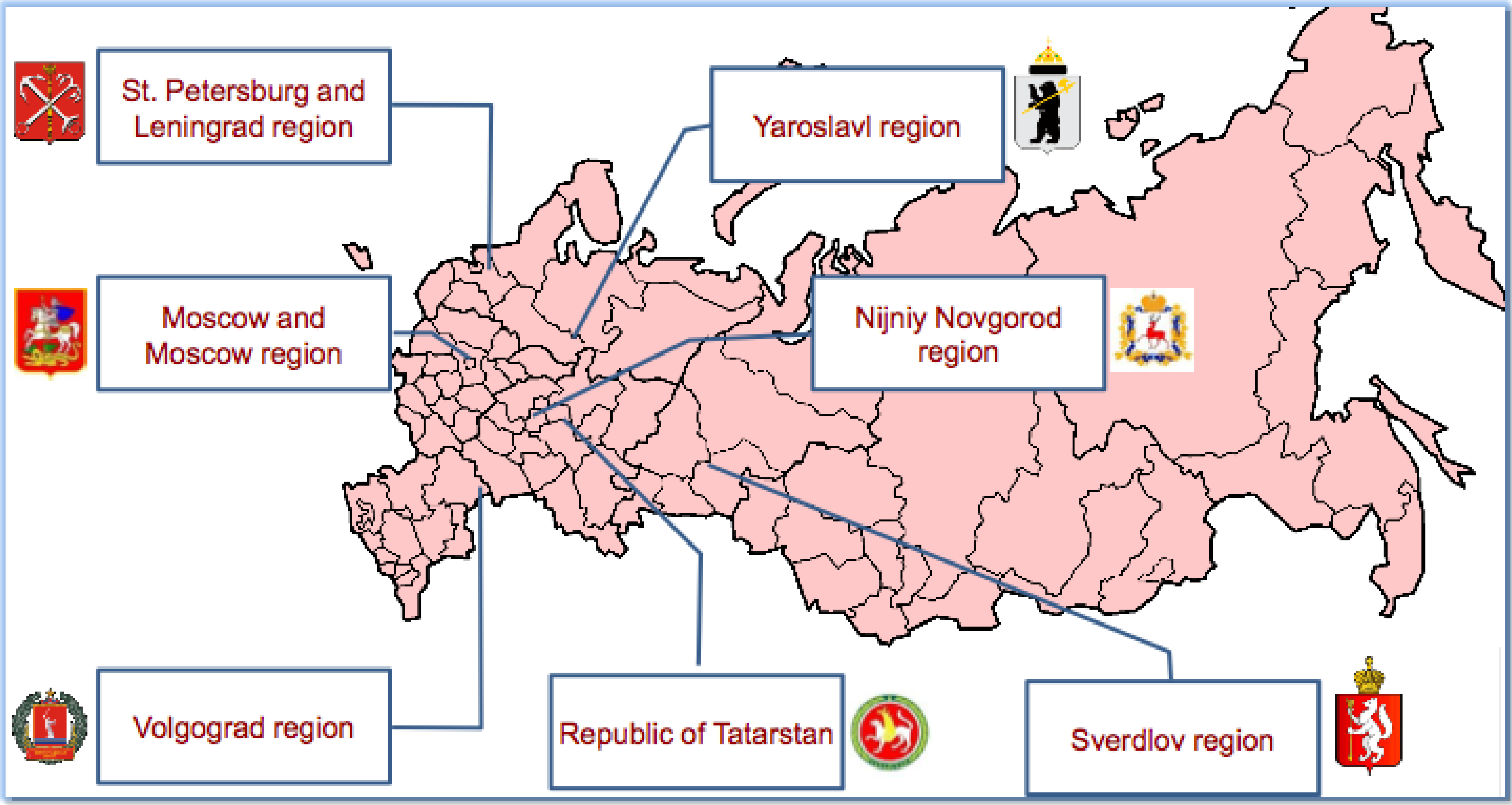
- The distribution segment of the Russian healthcare market is one of the most stable
- Distributors continue to follow the earlier set development trend - business diversification. Almost all large national distributors own one or several pharmacy chains (Protek, Katren, Rosta, Oriola, etc) and actively develop their own production (Protek, R-Pharm, SIA International, etc)
- In 2013 the market share of the Top-10 distributors amounted to approximately 82% of the total market



David Panikashvili, President of the pharmaceutical group of companies "Rosta" has identified the following trends in the development of the distribution segment in Russia:

- continued consolidation of the distribution segment
- integration of retailers and distributors
- positioning of the wholesaler/distributor as a partner, not just a vendor

Source: Pharexpert, Rosta



Source: Minpromtorg

Key criteria for choosing a Russian partner for localization in the Russian Federation

- Compliance with GMP
- Compliance with all aspects of the legislation of the Russian Federation
- Developed system of quality management
- Capability to establish a complete chain of distribution and promotion of products
- Best location of the production site
- Extensive experience in localization with other foreign licensors
- Availability of production facilities and capacity and opportunities for infrastructure development
- Reasonable cost of production services
- Economic stability, confirmed by time of operation on the market
- Economic sustainability of the potential partner
- Land, premises and equipment owned by the company's

Source: Sotex

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