Interview with Nataliya Sapozhnikova, Head of Representatives, Mili Healthcare

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It has been almost a decade since Mili Healthcare began its operations in Ukraine today becoming one of the top 20 leading foreign companies in the local industry. What were the initial objectives of the company when it entered the market and how have those evolved to your current goals?

Effectively, we will celebrate our 10-year anniversary in 2012 from the date that the company was first born in 2002, but in reality our operations only began in 2003. Over the next two years we are planning to move up in the ranking so that we become one of the top 20 companies of the overall Ukrainian pharmaceutical industry. Mili Healthcare has big plans for our regional expansion to other CIS markets in 2012 and we are particularly looking forward to expanding our operations to Russia. We have already identified the key markets that we will be moving into, including Moldova, Uzbekistan, Kazakhstan, Belarus, Tajikistan, Armenia and Azerbaijan. The product portfolio that will be exported to these markets has also been chosen and we have spent a big part of this year preparing for this moment. In some of the countries we have already begun the registration process for our products, so we expect to begin our business development activities in those countries in the beginning of 2012.

How has the company been performing in terms of growth and market share this year and what are your financial expectations for 2012?

In 2010 we experienced a 10-11% growth and this year we are in line with the overall growth of the Ukrainian pharmaceutical market, which corresponds to an increase of 17-18%. Our growth over the last two years actually decreased compared to previous years, but for the years to come we are planning reverse this trend and exceed the market growth by two times. I understand that these are very ambitious targets, but we have already been successful in the past with our strategies and expertise of the market, and therefore we are sure that we can perform above the average market growth. During the first 7 years of the company's existence we experienced the crises of the Ukrainian economy but despite that we were able to achieve great results and position ourselves as the 27th most important pharmaceutical company in the country. The aim is now to push even further in the ranking so that we can be listed at least within the top 20. I am confident that we would have achieved this earlier had there not been the recent crisis of 2008/2009 that severely affected Ukraine and the pharmaceutical industry.

Due to the crisis we were forced to adjust the objectives laid out in our 5-year plan because many of the distributors in the country had serious difficulties throughout the crisis, which created a very unstable environment for us. Out of five major distributors two of them went bankrupt, and overall distributors were not able to make purchases of great volumes because of the uncertain financial environment. This also forced us to lower our costs and limit our spending, including by decreasing the number of staff. Starting in 2010 Mili Healthcare began to reshape its portfolio by adding new products and restructuring the company's operations according to new business units. Due to these drastic changes we are set to grow considerably for the coming years because we believe that the company is now prepared for such an expansion. In 2012 we will be looking to develop our financial performance and increase our market share with our revamped portfolio.

Mili Healthcare already has an extensive product portfolio that includes OTC and prescription brands in therapeutic areas ranging from gastroenterology to oncology – and this is constantly increasing year by year. Which of these segments will be driving your growth?

Currently our portfolio consists of 50% OTC products and 50% prescription products and both segments have been growing well over the last year. We have already begun to expand the portfolio but have not seen an increase in sales from those new products yet. Our priority therapeutic area and main growth driver is the gastroenterology product line that includes 9 total medicines. Mili Healthcare also has a very strong presence in antibiotics and we have recently added 4 new products to this category.

In 2012 we will begin developing our cardiology and neurology segments as we have already begun the registration process for 12 products in those areas, additional to the 3 medicines that we

currently sell. We entered these two therapeutic areas in September 2010 and experienced tough competition from established companies, such as Nycomed, who have great expertise in those segments. Nevertheless, we achieved positive results with stable growth and now are now planning to add 2-3 new products to the portfolio next year.

What are your promotional and marketing strategies that allow you to introduce many new products at the same time and still achieve great results despite the tough competition?

The strategy to expand our portfolio has actually been quite gradual and has not been carries our all at once. We currently have 52 drugs in the Ukrainian market and this number has been the same since the beginning of our operations. Our portfolio expansion is only beginning now and we plan to take it step-by-step according to the trends of the market and our performance over time. For example, the 12 cardiology and neurology products that I mentioned earlier are being registered now but we only expect to launch them in about 4 or 5 years' time. This is an entirely new business unit for us so we have hired cardiology and neurology experts to serve as our medical representatives until we gain the necessary expertise to have a strong understanding of these therapeutic areas.

Regarding our OTC portfolio, we have been quite successful and are already amongst the top 20 companies in that segment. This is also one of the reasons why we expect our growth in 2012 to come mostly from our prescription products, because we would like to achieve the same success for our prescription segment as we have in OTC.

So what do you foresee will be the greatest challenges in you achieving such ambitions?

There are always risks in this business but we try not to think of them as challenges. Nevertheless, there are three main factors where we see most of the risks originating from. The first, is the legislation of Ukraine and the numerous changes that have been observed in the regulation of the pharmaceutical market since last year when President Timoshenko was in power. We will probably only see the full effects of those changes by mid-2012 and only then will we be able to gauge how our business has been affected by such changes. The second risk factor regards the customs laws of Ukraine which are very unclear and are not always abided by. In reality Ukrainian customs authorities take the liberty of applying certain rules as they wish and when it is most convenient for them. Finally, the third risk factor involves the changes that have been made to the VAT tax and how this will affect the sale of our products.

Considering Mili's expertise in importing foreign produced pharmaceuticals and then maneuvering market conditions to profitably market such products, is the company exploring the possibility of

looking for additional international partners and manufacturers to further strengthen your product offering?

Yes, this is also part of our development plan. Currently we work with manufacturers in Italy, Switzerland and Germany additional to our main manufacturing site in India. Our next aim is to find local partner manufacturers in the CIS countries were we are expanding to, and in some cases we have already identified such opportunities, such as in Belarus. We are also open to the possibility of co-marketing products with other multinational companies that are looking for a commercial partner here in Ukraine, but this is not our priority at the moment. In this case our preference would be to introduce the drug into the market under our own brand name.

What is your vision for Mili Healthcare in the future, say in the next 3 years? What would you like to achieve by then?

We expect to be amongst the top 20 companies in Ukraine and have a well-established presence in the CIS countries that we are moving into next year. By that time we will have also entered the Russian market and plan to replicate our successful performance in Ukraine in that market.

Furthermore, I would like to wish everyone in Ukrainian market much success for the next business year and I hope that they enjoy the challenges of this market as much as we do.

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