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1940s-1950s:

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1960s:

Lilly launched the first of a long line of oral and injectable antibiotics in a new class called cephalosporins.

1980s:

The most significant breakthrough in diabetes care since the 1920s was marked by Lilly's 1982 introduction of an insulin identical to that produced by the human body. This was the world's first human-health-care product created using recombinant DNA technology.

Lilly launched an SSRI, the first major introduction in a new class of drugs for treatment of clinical depression.

1990s:

Lilly introduced a stream of innovative new products: A drug for the treatment of pancreatic and non-small-cell lung cancer; an antipsychotic for the treatment of schizophrenia; a fast-acting insulin that offers greater dosing convenience to improve blood-sugar control; the first of a new class of drugs to be used for the prevention and treatment of postmenopausal osteoporosis and an oral antidiabetes agent.

2000s:

The year 2001 brought a major milestone: Lilly launched another first-in-class product for the treatment of severe sepsis in adult patients with a high risk of death.



Over the past 11 years, Lilly Turkey has contributed a great deal to Turkish society and healthcare with total investments of US\$ 217 million in education, clinical trials, and charitable contributions. We remain committed to our mission of delivering innovative medicines in partnership with Turkish health care professionals in order to improve the lives of patients and their families. Being among the top 15 Lilly affiliates worldwide with net sales of over US\$ 100 million, we are committed to creating value for the Turkish economy as a reliable Corporate partner. Our growing business currently employs nearly 400 people.

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Lilly

Answers That Matter.

Turkey: A top twenty player growing at an exceptional rate

Turkey remains a country between two worlds. Not only is it straddled between Asia and Europe, it also boasts a very strong and modern “western” industry and infrastructure together with a more informal economy estimated at 40% of GDP, more typical of an emerging market.

Health status does not escape this dichotomy: on the one hand, unlike many developing economies, nearly 90% of Turkey's population is covered under the national social security system; on the other hand, the health status of its population is not as good as that of other middle-income economies. Despite positive developments over the past ten years, life expectancy (68.7 years in 2004) is still ten years shorter than the average of OECD's countries. The most relevant indicator of Turkey's poor health status is the country's abnormally high maternal and infant mortality rate. Although the latter drastically decreased from 52.4 per 1,000 in 1990, to 38.3 per 1,000 in 2003, it is still nearly eight times higher than that of the US. Another example of Turkey's poor health planning is the heavy disparity in health indicators that exists between urban and rural areas.

90% of the Turkish population already has health insurance. Universal Health coverage is on the way

But there are signs that the government, led by Prime Minister Recep Tayyip Erdogan, leader of the Justice and Development Party or AK, is committed to changing this situation. The budget of the Ministry of Health (MOH) was increased to 3.2% of the GDP in 2004 from 2.3% in 2002. Acknowledging the need for thorough reform of its health system, the government has embarked on a major reform program: the Healthcare Transition Programme, whose goal is to modernize and rationally restructure the health system, including health services delivery and financing.

Prof. Recep Akdag, pediatric professor and Minister of Health, explains the three most important aspects of this plan: “*The Health Transition Programme will enable patients to access physicians and treatments more easily.*” “*The most important part is spreading the family practitioners throughout the country. The second issue is to ensure that state, insurance and institutional hospitals are opened to all citizens, more disciplined and turned into autonomous institutions. The third component is to offer universal health coverage, a measure which is underway*”. He adds: “*Over the last three years we have shown steadfast commitment to implementing a serious healthcare transition programme. Our policy on pharmaceuticals is closely related to these issues.*”



Doctor Maymun by Mehmet Gülerüz, 1976. Eczacibasi Ilaç Collection

Universal health coverage, which should be finalized in autumn 2005, will enable 10 million Turks previously excluded from the three existing social securities to have access to health insurance. In the process those three institutions also should be merged under a single umbrella organisation, hence ensuring homogenous coverage for the entire population.

In order to increase accessibility to medications, one of the first measures to be instituted was extending reimbursement patients for treatments purchased in non-state-hospital pharmacies, explains Prof. Akdag. “*Previously, 30 million workers, pensioners and their families were trying to get their drugs from only 300 hospital pharmacies. Now they are able to get their drugs from 18,000 pharmacies.*”

Patients used to line up for hours at badly stocked state hospital pharmacies and often could not get the prescribed

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Text and research: Frederic Boucheseiche ; Project
coordination and advertising: Agostina da Cunha.
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treatment. With the new possibility of purchasing products from regular pharmacies, accessibility to medication has improved drastically. In order to finance these changes, pharmaceutical companies were asked to give extra discounts of 11% for drugs that have been available for more than six years and 4% for drugs available less than six years.

This measure was praised by most stakeholders: patients, health professionals, pharmaceutical manufacturers and pharmacists. But it also was so successful and triggered such growth in pharmaceutical sales that some fear the financial burden on an already notably cash-short government could become too heavy in a country where pharmaceutical expenditures represent 50% of the overall healthcare budget (even though

drug usage per capita remains much lower than in the rest of Europe) and could lead to cuts in the currently guaranteed 80% reimbursement rates or to delay the reimbursements.

Nevertheless Prof. Akdag is confident that such outcomes are only temporary and, should be compensated for by rational drug usage and the 2004 implementation of a new pricing policy, which guarantees patients the cheapest drugs in Europe through an objective reference-pricing system.

The new system uses a reference price for an original medication that is the cheapest price available in five EU countries. Generics are automatically priced at 80% of the original drug. If the Turkish price for a drug is already the cheapest one there is no price increase. This new pricing system resulted in a 14% price decrease, and today drugs are an average 14.5% cheaper in Turkey than in the rest of Europe.

The new reference-pricing system also takes into account the the Euro/Turkish Lira exchange rates by implementing price adjustments when variations exceed 5%. This feature should protect pharmaceutical companies products and the patients against an often-devaluating Turkish Lira. In return for these efforts the government agreed to shorten the registration period for new drugs by allowing maximum of 210 days to study an application; previously this could have taken more than two years.

Another possible cost containment measure recommended by many would be the implementation of an OTC regulation that doesn't exist yet in Turkey. This seemingly very logical solution would automatically write off up to US\$500 million from the government's health bill. Having the 18,000 members strong pharmacist association opposing this measure, the government doesn't seem to be going in that direction, although it doesn't reject the idea either.

The Health Transformation Programme also led to a law fixing the status and role of family practitioners. Prof. Akdag believes that increasing the systematic use of family practitioners is an essential part of the program and these practitioners also could help reduce the government's burden by promoting rational drug usage: *"We believe that family practitioners will promote the rational use of drugs within the use of a regular recording system. The rational usage of drugs should compensate for the extra expenses. We will use more necessary drugs and stop using unnecessary drugs."*

The need to increase and better control primary health care is essential and must adapt to social conditions in Turkey resulting from geographic and demographic factors such as isolated rural



Prof Recep Akdag, Minister of Health

populations in remote regions and an aging population and sociological changes resulting from a rapid and poorly planned urbanization, which led to the creation of ghettos. Another issue results from the high concentration of providers such as hospitals, pharmacies or doctors in the three largest cities Istanbul, Izmir and Ankara.

The Health system deficiencies are particularly significant in Eastern parts of Turkey. In those regions, not only is primary care very poor but long lasting security issues limit the delivery of healthcare services. *"We cannot tolerate people who prevent the distribution of healthcare services, and in this context we are looking for more understanding and support from the Western world,"* remarks Prof. Akdag.

But he also stretches new efforts the government is doing in these regions: *"Despite our limited resources, we have invested and paid more attention*

in those areas with deficient health services; we have sent health personnel working on a contract basis with higher base salaries and are putting emphasis on family planning, infant and maternal care," explains Prof. Akdag, *"For example, we offer financial support to the lowest income under the condition that they attend regular health control encounters with doctors, and have started a distribution campaign for free protective doses of iron and vitamins for babies."*

By enforcing the Health Transformation Programme, the government of Turkey hopes to not only improve the national health care situation, but also to attract more investment in the pharmaceutical sector, explains Prof. Necdet Unuvar, the undersecretary of health at the MOH: *"Our policies should ease the accessibility of drugs to 70 million Turkish people, and will turn into an advantage for producers, wholesalers and pharmacies alike."*

Turkish Delights: Unprecedented Macro-Economic Stability

With a growing population of 70 million, the implementation of universal healthcare coverage and average annual drug consumption per capita of only US\$85, Turkey is one of the world's most promising pharmaceutical markets. During the past two years partially as a result of the government's Health Transformation Programme, which substantially increased access to medicine, the growth in pharmaceutical sales reached 25%, and this trend is expected to continue until 2008.

On the economic front, Turkey is experiencing unprecedented macro-economic stability. While the country's GDP experienced an outstanding average 9%-growth in 2004, long-time plagues, such as inflation, have been raked down to historic single-digit figures for the first time in decades. The Turkish Lira even was revaluated against the euro and the dollar in 2005.

Today Turkey is among the top-15 largest pharmaceutical markets in the world and still growing at a double-digit rate. In 2004 the total ex-factory market reached US\$6.3 billion, and US\$9 billion in retail sales, which makes the country a far more promising market than Russia, the other regional "giant", or any EU newcomer.

About 300 companies (including 53 foreign owned capital) are active in a sector that employs 23,000 workers. All the big pharmaceutical companies are represented in Turkey, but the market leaders are local Abdi Ibrahim and Eczacibasi.

With 5,000 products available on the market, and one of the world's highest

generic penetration (55% in volume and 40% in value), competition in Turkey is fierce. But talking about generics in Turkey can be different because the very notion of generics is not well understood by the public: generic brands are so strong and well-established that the public often sees no difference between a generic and a patented drug. As a result, the marketing and sales effort that generic companies develop to support their sales in Turkey is closer to that required for patent holders.

In the past, foreign companies used to enter the Turkish market through

bioavailability studies conducted in Turkey became mandatory for registering generics.

- In 1999 patent legislation entered its implementation phase.
- In 2001 Turkey became a member of CADREAC (Collaboration Agreement between Drug Regulatory Authorities of European Union Associated Countries).
- In 2004 reference-pricing system legislation was introduced.
- In 2005, new registration legislation and data exclusivity principles were introduced.

For the past two years sales are increasing in double digits figures

contracting local companies and giving them licences both for manufacturing and distribution. But this now has changed and most international companies have terminated their contracts and established local subsidiaries instead. They now either manufacture their products in Turkey or import them. Imports have increased by 207% between 1999 and 2004 and represented 38% of the entire market in value and 14% in volume in 2004.

On the regulatory front, Turkey is getting significantly closer to the standards of developed countries, as important developments have occurred over the past ten years:

- In 1995 the patent legislation was approved.
- In 1996 the Customs Union Agreement with the EU was signed, and the Generics' Registration law was introduced.
- In 1997 bioequivalence and

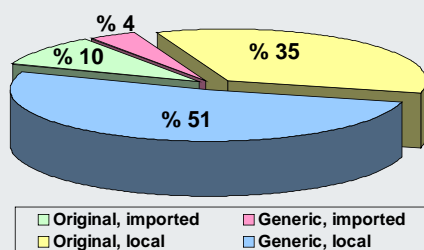
On October 3rd of this year, the accession talks started between Turkey and the EU. Turkey is now facing a great challenge: Turkish accession inspires little enthusiasm throughout and plenty of downright opposition among some EU member's electorate.

But Turkey already has been linked to the EU for ten years through the Custom Union Agreement, which was signed in 1995. In an unique situation Turkey accepted the Agreement before becoming a full member of the Union. The Agreement actually created an exceptional situation: under it, Turkey was to implement data-exclusivity beginning January 2001. However this was never done.

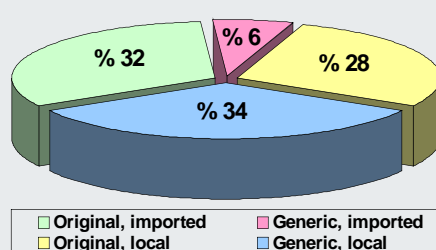
Two years ago disagreement about data-exclusivity emerged and resulted in the creation of the AIFD which represents the innovators in Turkey. For Altan Demirdere, the jovial president of AIFD

ONE OF THE HIGHEST GENERIC PENETRATIONS IN THE WORLD

Breakdown of Market by Volume



Breakdown of Market by Value



Source IEIS / IMS 2004

and head of Novartis Turkey, this separation did not mean a divorce but rather the end of an odd situation that “*did not reflect the global trend where on one side there are research-based companies and on the other side there are generic companies.*”

“*The problem being that local generic companies had the majority of seats in the board of the old association, so it was them who were representing our interest with the government. It was an awkward situation, as they were on one hand representing us, but on the other hand opposed to topics such as data-exclusivity or patent, which are very important to us innovative companies,*” he recalls, adding: “*Obviously we still have common issues and we still work together on them with the government. But concerning the issues of patent, data exclusivity and some other topics, it was clear that we had dissensions.*”

Although a central concern, the issue of data-exclusivity has not hampered Novartis' business development. The Swiss company enjoys a leading position in the market among the multinationals: “*We are among the top 10 biggest operations within the group. All of Novartis' business units and divisions are present in Turkey: Novartis Pharma exists with all its business units, so does Novartis Consumer Health. With the take over of Hexal Ilsan, there is now also Sandoz in Turkey, which I believe is the second largest Sandoz subsidiary worldwide after Germany,*” explains Demirdere.

Nevertheless, for Demirdere solving the issue of data-exclusivity is crucial for further developments in the industry: “*If these issues were to be sorted out, this could enable us to attract more foreign investment to Turkey and R&D activities in phase II-III or IV, or even at an earlier stage. Research is not any longer done from A to Z in one country, computerized molecular modelling or animal tests could be conducted here for example. With good academicians, proper cost structure, flexibility and hard work, research programs could start in our country as well.*”

Bülent Eczacıbası, one of the sector's most respected and charismatic voices, chairman of the Eczacıbası Group of companies and president of the IEIS (one of the two associations representing the

local (and often generic) manufacturers), agrees with Demirdere on the need for developing R&D: “*The pressure of competition and the export drive is pushing the companies towards more intensive R&D, we need to become more innovative. The generic industry is very competitive; companies need to be*



Bülent Eczacıbası, President of IEIS, chairman and CEO Eczacıbası

“The pressure of competition and the export drive is pushing the companies towards more intensive R&D, we need to become more innovative”



Altan Demirdere, president of AIFD, heads one of Novartis' top ten country

dynamic, responsive, agile and good in product development. The sum of all these elements means becoming a successful international player.”

He outlines the advantages for Turkey in promoting generic drug use: “*Our government could follow the example of other European countries in promoting the use of generic products and actively initiating public generic purchasing campaigns. Other measures also could be considered, like reducing the delay for authorizations and the registration of products today this takes an average of 2 years; the automatic inclusion of generic medicines into the reimbursement schemes,, or*

implementing a compulsory generic-substitution system, among others.”

“*IEIS is asking the government to focus on a systematic licensing procedure where competition in the generic industry would be enhanced. There would be some decline in prices with a positive impact on the public finances, but this needs to be complemented with a faster incorporation of generic products into the reimbursement scheme,*” complements Turgut Tokgoz, general secretary of the IEIS.

Eczacıbası also notes that Turkey boasts “*strong competitive advantages compared to other countries where the generic industry is in lower stages of development, mainly in terms of human capital and physical infrastructure.*” Eczacıbası adds that he hopes industry players will use these advantages to increase their exports: “*there is a great potential for the Turkish generic industry, far exceeding the actual figures of US\$ 145 million.*” Industrial capacity is in place with 96 production sites (12 foreign-owned) throughout the country. Good Manufacturing Practices and Good Laboratory Practices are the universal rule.

Although very attractive, another challenge facing Turkey is its capacity to attract Foreign Direct Investment. Turkey has had very poor results in this area and for example only attracted 1% of international pharmaceutical investments in recent years. The pace of regulatory change, chronic economic instability, corruption and bureaucracy have often frightened investors away.

But a more important obstacle might be Turks themselves. Most companies are family-owned and although most have professional and institutional management and lengthy experience in cooperating with international companies, very few of these players actually consider opening up the company shareholding or selling off their company.

There are few examples of this happening in the past: notably, the takeover of Ilsan by German Hexal in 1999 and that of Fako by Iceland's Actavis group nearly two years ago but these remain exceptions. Still, international companies are eyeing takeover opportunities in Turkey. Many actually predict that there will be a further consolidation among the many smaller Turkish players, which could result in future investment opportunities.

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Choosing Industry in Turkey

Anyone visiting Turkey will be charmed by the amazing beauty of Istanbul and its 365 mosques, by the diversity of its landscapes, by the richness of its culture, and ... by the number of factories! Turks just love to produce. Turkey has 96 pharmaceutical production facilities, of which only 12 are foreign-owned.

Today, except for minor exceptions, almost any kind of pharmaceutical product, in any form, probably could be produced in Turkey. Multinational companies, such as Novartis

or Roche, local Giants, such as Abdi Ibrahim or Eczacıbasi, or medium-sized companies have assumed the long-term risk. Today Turkey's production facilities rank as one of the world's most modern.

Kamil Göknar, chairman of Yeni İlaç, and a strong believer in the necessity to sustain an industrial base, took the courageous decision to adapt their operations to Good Manufacturing and Good Laboratory Practices in 2004. Meanwhile many small- and medium-sized companies had to shut down their manufacturing operations because of the financial burdens of the upgrading. As a result, Yeni İlaç has become a critical supplier for local players who turn to him to manufacture their products. His company is working at full capacity and produces 25 million boxes of 51 different product types annually, in the form of effervescent granules, suspensions, emulsions, syrup tablets, sugar-coated pills, powders, sachets, ointments,



Kamil Göknar heads one of the sole medium size company to manufacture at full capacity

capsules, and micro-pellets.

The solid production department is expected to be expanded soon from 600 sq. meters to 2,500 sq. meters. With this expansion, and with the upcoming registration of eight to 10 new products in the pipeline that should complement its now-aging portfolio of 20 in-house products, Göknar predicts that Yeni İlaç's sales should triple or quadruple in value over the next three years. Yeni İlaç also has applied for EU certification for their new facilities, in order to reinforce their market share in contract manufacturing for multinationals.

For Santa Farma's managing director, Erol Kiresipi, too,

industrial production is at the core of their success: *"The true strength of Turkey's pharmaceutical industry at the moment is production. Our target is to fill up idle capacity. You have to produce!,"* he insists. The other strategic move Kiresipi recommends is the development of R&D: *"Turkish generics need to leverage their skills in R & D in order to become oriented toward value-added generics. We believe that it is fundamental for long-term success."*

Although Santa Farma's portfolio of 65% in licensed products and

There are 300
pharmaceutical companies
in Turkey with 96
production facilities

35% of branded generics should shift rapidly to a more balanced half and half, Kiresipi remains a strong believer in international alliances as key to the future of middle-sized companies worldwide: *"If local companies in different countries*

combine forces, they can survive... Look what happened in Italy and Spain where the market restructured and many local companies disappeared. These are two perfect examples that illustrate why local companies need to form alliances ... Turkey is a growing market. Medium-sized players should always have a strategic ally here in order to successfully enter the local market."

Santa Farma should have a comparative advantage in the race for forming partnerships as it already enjoys a long and fruitful



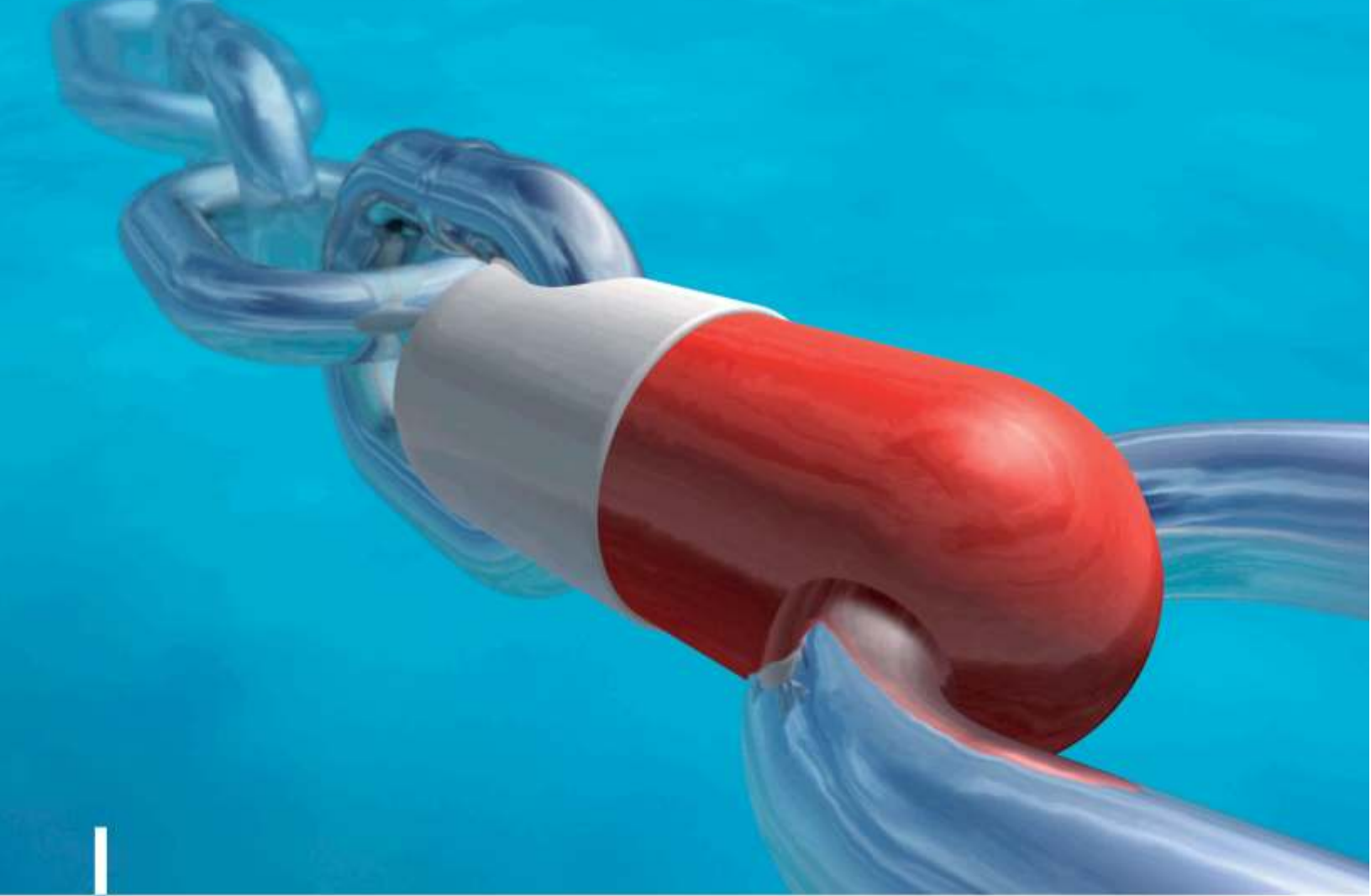
Erol Kiresipi, managing director, Santa Farma

"The true strength of Turkey's pharmaceutical industry at the moment is production"

history of collaborating with multinational companies, whether in manufacturing or licensing products. Last year the company celebrated the 40th anniversary of its partnership with Organon. It also enjoys a long working relationship with Johnson & Johnson.

In the past, such collaborations have shaped the industrial culture Turkey and contributed to raising the overall quality level. *"Adapting procedures for the Americans and the Dutch gave us the basic philosophy and mindset. Now, it is easy for us to adapt to change in a way that facilitates top European levels of GMP in Turkey. We have high quality management, and workers who are very well trained,"* recalls Kiresipi.

Foreign companies' input also was very important for Turkey as their presence contributed to raise the standards of the sector and of its employees to international practices, in a country where practical education is generally lacking in universities.



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Keeping Up with the Pace of Change

“This is an incredibly interesting and challenging moment for the Turkish pharmaceutical industry. Phenomenal structural changes are in the works that will afford consistent and broad access to medicine for the whole population. We are also seeing radical changes in the regulatory environment here with alignment to EU laws both in drug registration and to some extent with intellectual property rights. These macro changes represent a significant transformation,” marvels Jeremy Morgan, managing director of Lilly Turkey.

Morgan acknowledged that he was surprised by the attitude of the government elected in 2001. Many feared it would be populist and hostile to business, especially foreign-owned companies: “As a populist government that reacts to public opinion, the least painful thing might be leverage the current poor image of the research-based pharmaceutical industry and to use this leverage to drive a dialogue with us for deeper discounts or more restrictive access to new medicines. Over the past year, I am pleased that the Turkish government has engaged all sectors in active dialogue about the changes,” states Morgan.

Lilly's products, which have been available in Turkey for the past 41 years, are benefiting from this positive situation; the company's sales should reach US\$110 million this year. The new product drivers of double-digit growth will be in the areas of depression, stress, urinary incontinence, ADHD, osteoporosis, diabetes, and erectile dysfunction (ED). Next year, Lilly also is set to introduce new cardiovascular, cancer, and diabetes therapies into the Turkish market.

But Morgan also knows that in Turkey, nothing lasts forever: “As everything stabilizes toward the end of year, we expect overall significant cash growth in the market. However, knowing the government's history, my guess is that they will come back to all components of the pharmaceutical sector (pharmacists, wholesalers, innovators and generic producers) with proposals to further adjust one or a combination of prices, access to drugs in primary care, pricing discount schemes, or OTC policy.”

For an executive who developed his career in the much more stable markets of the US, France and the UK, keeping up with the constantly evolving Turkish environment was certainly a great challenge, and the last 20 months taught Morgan what no academic training or corporate procedure prepares you for: proactiveness; “The pace of change here does not allow you to deal with 101 corporate processes. You have to feel, and be, much more empowered,” he concluded.

“As a leader the pace of change in Turkey has taught me to try to be much more pragmatic and rapid in decision-making”

Jeremy Morgan, managing director, Lilly Turkey



Speciality-Care Spurs Growth

Thanks to a strong reputation Liba, a medium-sized local player, has managed to create strong partnerships with companies like Alcon, Gerot and Ebewe, and import their products to the Turkish market. In a concentrating market, each time it is more challenging for a company the size of Liba (whose sales should topple Euro 16 million (US\$ 19.5 M) this year), to find the ideal partners “a company with a very good development that does not need a global presence, therefore not yet internationalised; and with interesting products in the pipeline.”

Until 1994 Liba, a company created in 1945, also was manufacturing generics in all kind of areas: analgesics and cough and cold products amongst others. But market changes and implementation of GMP and GLP regulations in the mid 90s forced the company to totally rethink its



Lale Barlas, one of Liba's founders was the first woman pharmacist in Turkey

positioning.

Due to the large financial investments required by these new regulations Liba's management team decided to abandon

in-house production. Stopping production did not mean the end of Liba's brand. Idle capacity was already available in these years, enabling Liba to have its products manufactured by Turkish companies using the most up-to-date techniques and processes. This was very important for a company, whose core values include quality and ethics.

Another strategic decision was to shift to speciality-care markets, rather than try and compete in the therapeutic classes. Murat Barlas, president of Liba, who like many of his generation was educated at the famous German School of Istanbul, explains this strategy: “We decided not to compete with the pharmaceutical giants of the sector in crowded segments and decided instead to stay in niche fields where our company name has been recognized for its history and reputation.” Liba's

strategy to target niche markets with innovative or generic products could pay off since growth in speciality care is predicted to outpace that of primary care. Barlas already is expecting 25% growth for next year, and hopes that new products waiting for registration will boost development.

Growth in speciality care also should guarantee outstanding results for Swiss based Roche in upcoming years. In Turkey, as elsewhere in the world, Roche is refocusing its activities and shifting from primary-care to speciality-care products. As a highly specialized company, Roche is transforming its focus in Turkey to reflect its global positioning. According to George Hadjiev, the recently appointed Bulgarian-born general manager of Roche Turkey, future areas of emphasis should include oncology, virology and transplantology. He hopes that the development and launch of multiple medications in these areas will give Roche Turkey a 70% speciality-care orientation by the end of 2008.

The personal targets Hadjiev has set are



George Hadjiev plans to double Roche's sales in Turkey within 3 years

high: *"Over the next three years, I aspire to make Roche Turkey number three for Roche Europe,"* he says. *"We are aiming at doubling our sales in 3 years. Our sales should top US\$ 670 million, and we could very well be challenging Novartis for the position of number-one innovative company by then,"* he adds. Roche's oncology business already is growing at a rate of 30%. All of Roche's new products should be introduced to the Turkish market by the end of 2007, and should account for 70% of the company's growth.

Turkey and Russia offer outstanding opportunities in Central and Eastern Europe, currently the regions having the best growth potential worldwide. But for pharmaceutical companies, working in Turkey, where practices are becoming more regulated and aligned with those of the developed world, and where a health insurance system is in place, is far *"easier and less challenging"* than operating in Russia, Hadjiev says.

He recently transferred to Istanbul from Moscow. In Russia he spent more than two years establishing a development center, and he hopes to establish an similar affiliated development center in Turkey *"as long as the pending legislation creates the right environment"*. Surprisingly, weaker legislation in Russia might have helped in getting the necessary approvals for doing so, he explains. Nevertheless he was surprised by the fact that the *"Turkish Minister of Health was very aware that a simplification in bureaucratic procedures would help in attracting more R&D projects from multinationals."*

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The Next Big Step: Developing Exports

In 2004, Turkey's export of pharmaceutical products barely reached US\$145 million, with Ilsan Hexal, the fully-owned subsidiary of the German-based generic manufacturer Hexal group (recently purchased by Sandoz), alone accounting for 50% of total national exports.

Considering Turkey's idle production capacity and the numerous advantages of its geographical positioning, it's hard to explain the lack of interest from both local and international companies in using Turkey as a regional production hub and develop exports especially in light of the spectacular results in those areas for industries like textiles or automotive. It is true that countrywide Turkey only opened up in the beginning of the 80s and paperwork for new



Hasan Ulusoy, chairman, Nobel Ilaç

"There has never been an incentive by the Turkish authorities to encourage the pharmaceutical companies"

products registration might seem to be a setback, but most industry experts and players agree the only plausible explanation for this situation is that things were going so well in the local market, that no one really bothered to look outside.

Mr. Hasan Ulusoy, chairman of Nobel Ilaç A.S offers another explanation, poor or nonexistent incentives to export: *"It took some time for Turkish companies to understand the importance of exports. But it needs also to be mentioned that there has never been an incentive by the Turkish authorities to encourage the pharmaceutical companies as it is in India, China or South Korea. Unfortunately the governments have done the opposite by cutting the patent-*

free time, by accepting the data exclusivity at early stages, by delaying the market authorizations and by discriminating local products vs. the imports at the pricing procedure, which led to an increase of the share of import medicines from 7% to 50% in the last 15 years," Ulusoy asserts.

"In spite of the above-mentioned disadvantages from the past, a few Turkish companies, such as Nobel could manage a certain growth and have nominated themselves as a potential partner for the global market. In the roots of these developments there are some key elements like the skilled personnel in the country, a developed business understanding at the management level and the logistic advantages of Turkey," he adds. But Ulusoy is betting strongly on the *"resilience"* of the Turkish managers to catch up.

Nobel Ilaç, headquartered in Istanbul, ranks 14 in sales in Turkey according to IMS surveys, with a market share of 3% and total sales of nearly US\$200 million for 2005. According to Ulusoy, Nobel has already become a multinational company. He mentions investments in twelve other countries in terms of production sites and marketing organizations, a sales force of 200 outside of Turkey, and products under registration in Turkey and over 40 countries. Besides finished products, Nobel's sister company, Ulkar Kimia, also produces and markets API to both local and international markets. It is the largest Turkish manufacturer of modified-release products in the form of micro pellets.

Considering the idle production capacity installed in Turkey, and the numerous advantages of its geographical positioning it is hard to explain the lack of interest from both local and international companies to use Turkey as a regional production hub

Whether it is too late for Turkish companies to catch up and bridge the gap, only time will tell. Nevertheless, more and more companies facing decreasing margins in the local market have decided to put exports at the center of their development strategy for the coming years. Not only should this allow the most successful companies to earn much needed hard currency in an industry highly dependent on raw material imports, thus vulnerable in terms of foreign currency risks, but also acknowledge that to become a real big

player, you have to step outside your frontiers. Erman Atasoy, the Chief Executive Officer of Abdi Ibrahim, Turkey's leading pharmaceutical company, confirms: *"Being the market leader in Turkey for some years, we should also be a player competing outside of Turkey. Our long-term*



Sedat Birol, vice president, Eczacibasi pharmaceutical division

"Our Target is to grow our exports by 30 to 35 % every year, for the next four years"

success will depend on this strategy rather than on our leadership in Turkey. Our actual position doesn't guarantee the strength of the company in the future."

Abdi Ibrahim has taken steps to export its products. The most significant is its plan to build a manufacturing plant in Algeria. Erman Atasoy also notes that in less than a years time, the company has managed to register products in the very complicated Russian market. The company's workforce has started

marketing products in Moscow, and Atasoy hopes that distribution will soon start in St. Petersburg and Siberia. He also mentions that licences have been given to companies in Lebanon and Indonesia.

Objectives are clear: *"Exports should catch up with national sales in the next ten years, and then of course the share of our Turkish activities should decrease in our portfolio."* Atasoy has gathered experience in the global pharmaceutical

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industry, working for Novartis in Turkey, India and Switzerland. He also likes to remind his visitors that Abdi Ibrahim is already a multinational that represent over 40 companies from different parts of the world, and that Turkish companies have a strong record of marketing their brands since Turkey is a branded generic market.

The Eczacibasi Group, Abdi Ibrahim's immediate competitor, also is eyeing export development as the next big challenge for the company. Tango lover and former tennis champion Sedat Birol, the vice president of the Pharmaceutical division of Eczacibasi, makes no secret of their intentions: "Our Target is to grow our exports by 30 to 35 % every year, for the next four years," he declares. In 2004 alone, exports rose from US\$17 to US\$27 million. 70% of which went to the EU markets, mainly to Germany, Denmark

and the UK. The target and the strategy set by the group is clear: "for the last 2 years we have started on registering new products in the EU 15 plus the new 10 EU countries. This should trigger a real jump in our exports in the years 2006 and 2007," he explains, adding: "Without the EU or the US market, you cannot count on steady and regular growth."

Birol explains the strong focus on the EU and the US, by the volatility of their other markets. Eczacibasi has already sold their products to 30 different countries but encountered some difficulty in working with some of them, for example sudden import restriction legislation approved in Tunisia or the collapse of the Iraqi market.

One of the difficulties faced by

Eczacibasi and other Turkish companies for exporting their brand, according to Birol, is that Turkey doesn't enjoy international recognition as a quality potential manufacturing place yet. But he is confident that their production operations, "one of the most modern in the world," is their best publicity.

The Pharmaceutical division of the Eczacibasi Group comprises three manufacturing companies, two marketing companies and two service companies. Last year Eczacibasi's national market share grew by eight point. According to IMS its national market share reached 5.2% in sales in May 2005. With 85 products to be launched in the next three years the company should expand its product range to three new therapeutic areas: asthma, oncology and diabetes.

Company Focus:

MN Pharmaceuticals

When Mustafa Nevzat Pizak first produced an ampoule in Turkey in 1930, he could not possibly imagine that the future of the family business still would be strongly related to injectable products 75 years later. Time and production practices have changed at MN Pharmaceuticals, the company that still bears his initials. The company still produces injectable ampoules no longer from a small laboratory but in one of the most modern and largest plants in Europe.

MN Pharmaceutical has also developed strong knowledge in the field of lyophilised injectables, and in their production processes which involve the most complex processes in the industry. This constitutes a strong barrier,

protecting MN Pharmaceuticals from "me-too" competition, according to Cengiz Sezen, chairman of the company and grandson of Mustafa Nevzat.

Besides, thanks to a four-decades-long collaboration in toll manufacturing Lilly's products, MN Pharmaceuticals already works under the highest standards and they are already used to the stringent FDA-regulation. Some of the API lines of Unifar, a sister company, already are FDA approved. One of Turkey's last API producers, Unifar's products are approved for distribution in countries like France, Germany and the US and the company has been successful in selling registrations to EU generic companies. Sezen believes MN Pharmaceuticals should use these



Cengiz Sezen, chairman, MN Pharmaceuticals

advantages and accumulated experience in order to gain market share in the export market, especially in the most sophisticated ones: "MN Pharmaceuticals will be a pioneer in entering the regulated markets. We are not targeting the mass market in the EU or in the US, since our cost base is not competitive with that of India or China, but there is substantial upside potential for niche marketing of more sophisticated products like our injectables." So far it has made applications in the UK and Germany.

With this strategy MN Pharmaceutical should soon be able to raise exports from US\$20 million to US\$150 million, according to Sezen, who predicts that outstanding development in the Turkish market will help his company become truly multinational: "The Turkish generic industry is an undiscovered world for Europe and the US, but they have started to take great notice of us due to the explosive growth in the past two years."

MN Pharmaceuticals has been manufacturing Lilly's products in Turkey for more than 40 years





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Managerial Revolution

Erol Frik was living a quiet life as an engineer in Canada with his wife and children and had totally chased away the idea of returning to live in Istanbul. He never really expected to take over the reins of the family company, but when his father offered it to him, he couldn't resist giving it a try.

From Canada he brought back more than just memories. Soon after his arrival at Doctor Frik Inc., the company created by his grandfather, he implemented a completely new management style. Decisions no longer were taken by a top man that noone would dare contradict, but by a board of directors. *"In Turkey, people have a problem differentiating respect from close communication. Very few people would go to their boss and tell them about a problem. If people always tell you how great you are, you end up losing touch with reality,"* explains the most "North-Americanised" Turk in the sector.

He put in place a very horizontal, informal

but results-oriented Canadian management style, a true revolution for a company that was stagnating at only five million units sold annually as of three years ago. His father first looked upon this managerial change with skepticism, and changing the mindset and habits of employees was probably the hardest task, according to Frik, now chairman of the board.

Nevertheless, his efforts paid off: sales tripled over the last three years and should reach US\$30 million in 2005; in the first quarter of 2005, Doctor Frik Inc. became the second fastest-growing company in Turkey, behind Bayer, with sales value up 92%. *"What was remarkable about this is that we managed it only by increasing the sales of our existing products. Normally growth is fueled by new products, but we have managed only with the existing ones,"* explains Frik.

Traditionally a gastro company, Doctor



Erol Frik back from Canada shaking mentalities

Frik Inc. is now entering the urology and CNS areas. The future launches of 20 to 30 new products, mostly in CNS, and awaiting registration at the ministry of health, guarantees a reservoir of growth. Frik points out the even greater potential impact, both in sales and in profits, of the company's introduction of these new drugs: some of them will be priced in the euro 12 to 15 range while Doctor Frik Inc. traditionally has marketed less expensive products in the euro 1 to 2 range.



Booming SFE Solutions Demand

Yekta Alper, general manager at Cegedim Turkey, recalls that when he worked at Roche in 1998 and selected Cegedim as a supplier of outsourced SFE solutions, the French-based company hardly had entered the Turkish market, and Pfizer was its sole client. The company rapidly complemented its client portfolio through contracts with Sanofi, Organon and Aventis. Last year it added Schering-Plough and Bilim. The latter was its first contract with a local player.

The backbone of Cegedim's outsourcing solution is a platform called OneKey database, which according to Alper, is substantially better than the ministry of health's database. OneKey has about 4,000 users in Turkey, and the database is fuelled by an average 1,800 daily updates through daily reporting by sales reps and constant contact with Turkey's 90,000 doctors.

Considering the need for communication in such a vast country the market for SFE solutions looks very promising with multinationals, but also with local companies, which distribute branded generics and counts with many sales reps. This justifies the particular effort Cegedim is paying at attracting local companies. This year the company secured its second contract with a local pharmaceutical manufacturer.

In Turkey, SFE services still account for about 90% of Cegedim's euro 2.5 million (U \$3million) incomes, which is still very low compared with Cegedim's core European markets. But the concept is still very new to the market; and it is sometimes hard to convince local companies, which traditionally increase headcount to increase sales, that SFEs can lead to efficient solutions. Alper is confident, though, that his efforts are starting to pay off: "We are seeing success in identifying the need for outsourced products," he says but adds "but many potential clients still need to find the budget for it."

In 2004, Cegedim launched interactive marketing services, using marketing solutions such as telephone surveys, direct mailing services, monitoring of market studies and doctor's segmentation. Alper claims that, in Turkey, Cegedim runs the largest call center dedicated to the pharmaceutical industry.

Turgut Gürsoy, chairman and CEO of Probil, a Turkish company and Cegedim's competitor, also assesses the need of the industry: "This industry has explosive potential for us," he says, adding that "Growing domestic companies are open to outsourcing solutions. The trend is clearly growing as international companies have been the pioneers of this way of

Dr. F. Frik Pharmaceuticals Co., Inc.



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*A traditional Turkish talisman called the "evil eye". The evil eye belief is that a person can harm you by "looking" with envy and the blue beads are to ward off the effects of the evil eye.



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thinking." Probil started supplying the pharmaceutical industry six years ago, confident of its advantage as a local company already entrenched throughout the country. For example, Gürsoy points out that Probil offers support for PDAs through 50 offices in Turkey.

Probil is Turkey's number-one CRM provider and is very active in the insurance, finance or telecom sectors. "Market knowledge is key. Our CRM software has lots of success stories in different sectors," stretches Gürsoy. The pharmaceutical sector still only accounts for US\$2 million out of Probil's 45 million sales, but Gürsoy is confident that Probil will be able to repeat the successes that it has experienced in other sectors: "One year of consulting with industry experts went into launching our pharma-specific CRM. We now have five customers using this hosted application with no investment from them," continued Gürsoy.

Gürsoy counts on Probil's leading position in e-learning to gain market shares: "Over the last few years we have developed customized e-learning solutions for pharmaceutical companies to develop the sales skills of representatives," he says. A year and a half ago Probil launched its Probil Pharma, a total solution combining specialized CRM parts, business continuity and disaster recovery and e-learning.



Turgut Gürsoy, chairman and CEO, Probil

"this industry has explosive potential for us"



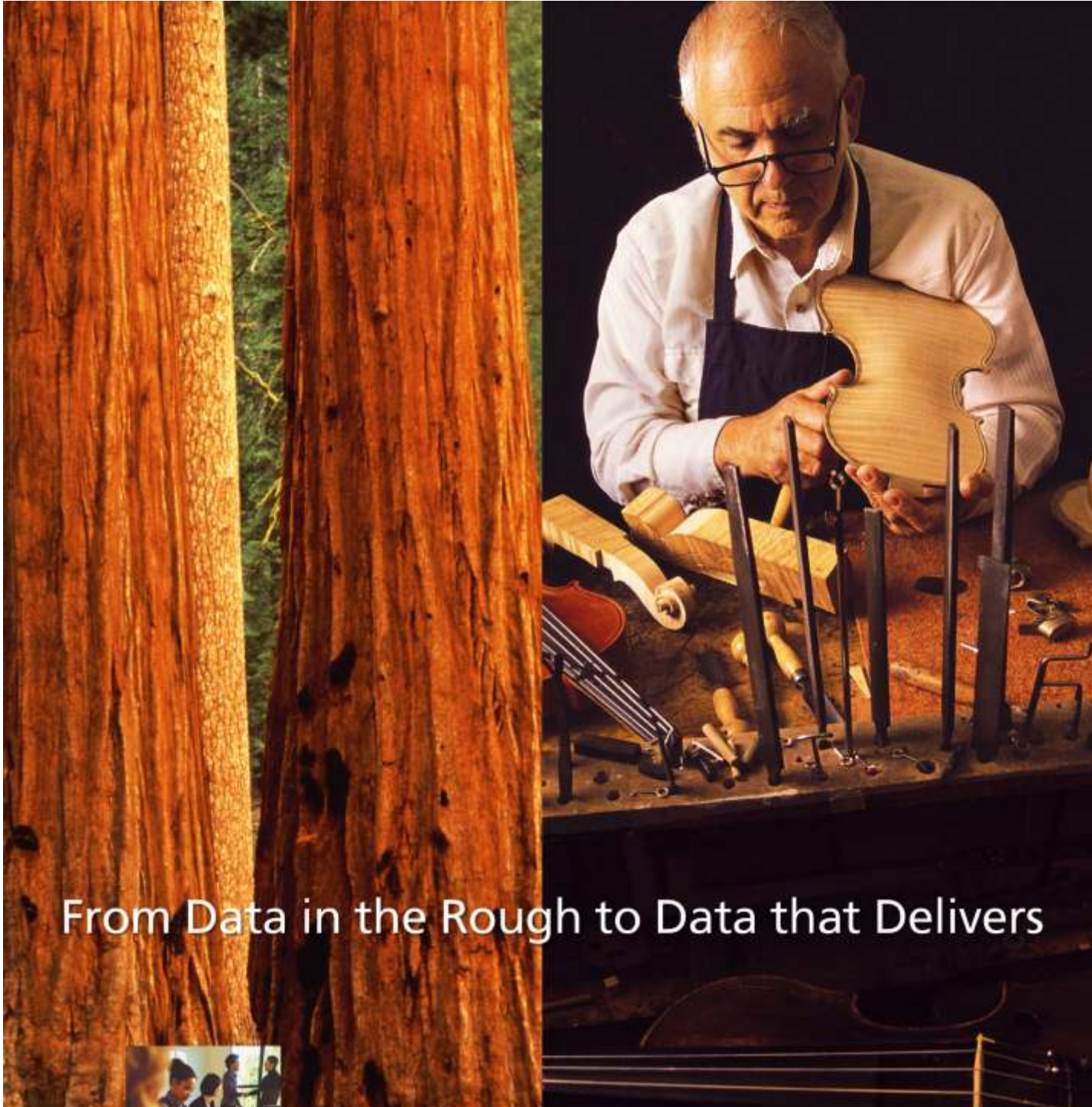
Yekta Alper, general manager, Cegedim Turkey

"Our "OneKey" database is substantially better than the very database of the Ministry of health"

Turkey's Distribution Giant

With 40% market share in distribution and sales of US\$ 4 billion, Hedef Allianace is Turkey's biggest company in the pharmaceutical sector in sales terms. "We were the last warehouse to come on the market in 1993," the chairman, Ethem Sancak recalls. "At the time nearly 600 warehouses serviced the industry but the notion of service was seldom developed: pharmacies had to go to the warehouses to get supplies, it took a minimum of 24 hours to distribute simple drugs and there was no cold chain." Today Hedef supplies the country's 18,000 pharmacies.

Hedef rapidly revolutionized the sector and seven years later had taken a leading position. Today the company's warehouses are based no more than two hours away from the most distant pharmacy, according to Sancak. Hedef shares the market with Selcuk Ecza Deposu who holds another 31% and with TEKB, a regroupment



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Ethem Sancak,
chairman, Hedef
Alliance

of cooperatives that hold 11% of market shares. But the latter is rapidly losing ground. The remaining market share is controlled by a few regional distributors.

Persuaded that with the consolidation of distribution worldwide, European giants would end up coming to compete in Turkey, Sancak decided to be proactive and contacted American and European distributors to suggest an alliance. He was surprised to discover that US distributors only focused on the very profitable home market, which he thinks could be an error in

the long-run. Sancak decided to sell 50% of the company to Alliance Unichem, an Italy and UK joint venture, and in return bought a substantial (four to five%) share of the company which ranks 60 on the Financial Times Index. Not bad for a man who doesn't speak English!

The Turkish subsidiary, Hedef Alliance, is now in charge of developing the group's business in Egypt (where they recently took over the largest distributor), Bulgaria, Sub Saharan Africa, and Russia.

Executive Talks



Zinta Krumins, managing director, Boehringer Ingelheim

“Turkey is developing rapidly not only in processes, procedures and laws, but also in opportunities for business”

Turkey generally ranks in the top ten globally for Boehringer Ingelheim's new products



Engin Kap, managing director, Wyeth Ilaclari

“There is a well-educated and talented group of people in Turkey scientists and executives”


Prevnar and Tygacil should fuel Wyeth's growth in Turkey for 2005-2006



Elcin Ergun, general manager, Serono

“We came in 1998 and it was the right decision. There was a clear need to introduce innovative drugs to the market”

In Turkey Serono focuses on infertility and multiple sclerosis treatments

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A plant of the large genus *Tulipa*, hardy, bulbous-rooted members of the family *Liliaceae*, the tulip is considered as the national flower of Turkey. Tulip bulbs were introduced into Europe in the sixteenth century from Turkey, where they were possibly first cultivated. Many varieties were "innovated" by horticultural methods.



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