



S Z Ö V E T S É G E

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HUNGARIAN ASSOCIATION OF  
PHARMACEUTICAL WHOLESALERS

*1996*

THE ASSOCIATION CELEBRATES ITS 10<sup>th</sup> ANNIVERSARY

*2006*

# Preface



Dear Reader,

In 2006, the Hungarian Association of Pharmaceutical Wholesalers (HAPW) celebrates a double anniversary. It was exactly 10 years ago that 21 pharmaceutical wholesale companies set up this professional organization to protect their interests and carry out lobbying, and, at the same time, the Hungarian association became an associate member of the European Association of Pharmaceutical Full-line Wholesalers (GIRP).

The Presidential Board of the Association has decided that on the occasion of this double anniversary, it will publish a short document giving a comprehensive picture of the Hungarian pharmaceutical wholesale trade. This publication provides Hungarian and foreign participants in this sector, as well as interested lay persons, with useful information and, at the same time, gives you a clear understanding of this special area.

Dear Reader, you now have this publication in your hands. Reading these pages, you will gain an insight into the emergence of the pharmaceutical trade, and follow the history of this profession to the present time. You can acquaint yourself with the legal and organizational background to the modern Hungarian pharmaceutical wholesale trade of the 21st century and the major companies in it, which meet the highest European standards; and - last but not least - with

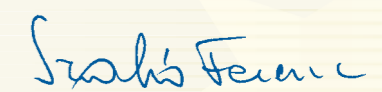
the operation of the Hungarian Association of Pharmaceutical Wholesalers.

As this publication illustrates, like other parts of the Hungarian economy, this sector returned to the market economy after the change in the political system in 1990. Its extremely rapid development over the past 15 years, largely attributable to the skilled and dedicated specialists in the pharmaceutical sector, has resulted in an unprecedented choice of products and an extremely high level of services in the pharmaceutical trade. It has now become evident that this sector, which is of great importance to the national economy as a whole, would be unable to operate without the well-organized wholesale trade centers which have been created across Hungary and rely on state-of-the-art IT solutions and automatic systems.

This year, GIRP will be holding its annual general meeting combined with a professional conference in Budapest; this can be regarded as a token of recognition of the activities of Hungarian pharmaceutical wholesalers. We take pride in the fact that Hungary is the first of the new EU member states to have the honour of organizing this event.

Owing to the development of its infrastructure and the extensive professional knowledge and experience gained over the past decades, in particular, during the past 10 years, the pharmaceutical wholesale trade is now an efficiently operating sector in Hungary. Those working in it, as well as the professional individuals responsible for ensuring its economic, legislative and financial background, have the duty to ensure that this continues in the future. Indeed, the health of the nation may depend on the success of our efforts.

On the occasion of this double anniversary, let me take this opportunity of presenting my compliments to all employees of member companies of the Hungarian Association of Pharmaceutical Wholesalers, and expressing my special thanks to the GIRP leaders for the support they have given to Hungary over the past decade in helping this country join the forefront of the European pharmaceutical wholesale trade.

  
Szabó Ferenc  
President

The social and economic transition in Hungary in the 1990's had a profound impact on the pharmaceutical trade. A decree issued by the Ministry of Public Welfare in 1992 brought one-channel pharmaceutical trade to an end (up till then, there had been one single state-owned pharmaceutical wholesale company which obtained medicines from the manufacturers and distributed them to pharmacies through 19 pharmaceutical centers across the country and to one in the capital); in addition to Hungaropharma Trading Company for Pharmaceuticals, almost 60 companies, including a number of pharmaceutical manufacturers, were granted a license to engage in the wholesaling of pharmaceutical products. In response to these market changes, at the founding Members' Meeting on April 24, 1996, the representatives of the 21 founding members - including Hungaropharma Trading Company for Pharmaceuticals and the 20 pharmaceutical wholesale companies organized from the former pharmaceutical centers - established the Hungarian Association of Pharmaceutical Wholesalers.

The main objectives of the Association, declared at the time of its foundation, have remained valid in essence to this day; the most important of these are as follows:

- Communication and representation of the wholesalers' professional interests.
- The furthering of a safe and regulated medicine supply, based on the needs of the population and the requirements of health care, while at the same time representing the wholesalers' interests.
- Participation in sectoral regulation, the elaboration of and commenting on support systems and principles.
- Elaboration of the ethical standards governing the market attitude of pharmaceutical wholesalers, ensuring and checking compliance with these standards.

In the same year of its establishment, 1996, the Association successfully applied for membership of the European Association of Pharmaceutical Full-line Wholesalers (GIRP), and so we became an associate professional member of that body. In 2004, following Hungary's accession to the European Union, the Association became a full member of GIRP.

Medimpex Trading Company for Pharmaceuticals became a member of HAPW in 1997, followed by Humantrade Llc., PharmaChom Llc., VIRIDIS Llc. and Papp Wholesale House in 2000. (These last four member organizations terminated their membership at the end of 2004.)

The impact of the political transition noted above was also evident in the day-to-day activities of the Association, in terms of both their content and organization. The privatization of pharmacies, the emergence

# The

## HUNGARIAN ASSOCIATION OF PHARMACEUTICAL WHOLESALERS

*Celebrates its 10<sup>th</sup> Anniversary*



of a number of pharmaceutical wholesalers and the resulting competition brought changes to the life of the Association. As a consequence of the battle for the pharmaceutical market and the resulting privatization of the wholesale trade, our members now include only full-line wholesalers that have accepted the objectives of the Hungarian, and thereby the European pharmaceutical wholesalers. These members are Hungaropharma Trading Company for Pharmaceuticals, Phoenix Pharma Trading Company for Pharmaceuticals, Medimpex Trading Company for Pharmaceuticals and Pannonmedicina Trading Company for Pharmaceuticals; they include 17 of the 21 founding members. Their share of the pharmaceutical market, which has an annual turnover of HUF 480 billion at wholesale prices, is over 80%. Through 15 wholesale centers, the Association's member organizations distribute the products of about 230 pharmaceutical manufacturers - almost 300 million boxes of medicine per year - to more than 2500 pharmacies, hospitals and other health care institutions across Hungary. They employ about 2000 people to do this. In addition to its member organizations, the Association has a number of prominent professional individuals as supporting members, who help the Association in its day-to-day work. Looking at the activity of the Hungarian Association over the past 10 years, we can state without bias that the Association has earned recognition both in Hungary and abroad. It has a professional relationship with the Hungarian governmental health agencies and is often approached for comments and proposals; further, the Association cooperates with manufacturers' organizations in Hungary and abroad, and with the



Members of the Presidential Board:



Mr. Ferenc Szabó,  
President



Dr. Ráchel Hazslinszky  
Vice President



Dr. Sándor Küttel  
Vice President



Dr. Imréné Takácsy  
Member of the Presidential Board



Mr. Tamás Kaló  
Chairman of  
the Supervisory Board



Mr. István Fácányi  
General Secretary

Members of the Supervisory Board: ● Mr. Tamás Kaló, Chairman of the Supervisory Board

● Dr. Mihály Falusi, Member of the Supervisory Board ● Mr. Péter Kovács, Member of the Supervisory Board

Hungarian Chamber of Pharmacists. The Association comments on draft ministerial decrees and government proposals relating to health care, attends the price negotiations of the National Health Insurance Fund of Hungary, and assists the governmental health agencies in their work by compiling professional summary studies. The Association proceeds on the basis of annual work programs based on suitable programs for the professional objectives of the current year. The regular meetings of the Presidential Board provide a forum for the discussion of current tasks and the making of related decisions. The Members' Meeting is the supreme decision-making body of the Association,

and defines the operating framework laid down in the Charter of Incorporation and the Ethics Regulations of the Association.

Celebrating a double anniversary, that is, the 10th anniversary of the establishment of the Association and its membership of GIRP, we feel especially honoured that in this year GIRP will be holding its 47th annual General Meeting in Hungary, largely in recognition of the professional work of our Association. At its Members' Meeting for the election of its officers in November 2005, the Association elected the members of the Presidential Board and the Supervisory Board for three years. Our current officers are as follows:



#### BRIEF INTRODUCTION TO GIRP

Founded in 1954, the European Association of Pharmaceutical Full-line Wholesalers (Groupement International de la Répartition Pharmaceutique - GIRP) is the umbrella organization for pharmaceutical full-line wholesalers in Europe, and represents the national associations of over 600 pharmaceutical full-line wholesalers operating in 32 European countries.

With some 140,000 employees, GIRP members record a pharmaceutical turnover of EUR 100 billion a year. European pharmaceutical wholesalers supply more than 130,000 pharmacies with over 100,000 products, to high quality standards, in all stages of the supply chain.

GIRP offers a forum for the communication and exchange of experience between full-line pharmaceutical wholesalers, and thus helps them achieve their objectives and facilitate the safe ongoing supply of medicines to people in Europe.

#### Participation of the Hungarian Association in GIRP's Work

From 1996 to 2004, the Hungarian Association was an associate professional member of GIRP. In 2004, following Hungary's accession to the European Union, the Hungarian Association became a full member.

In the initial period of its ten-year membership, from 1996 to 2000, the Hungarian Association was able to follow GIRP's work closely as an observer; in addition, GIRP provided HAPW with information materials. Active professional cooperation started in 2000. A major reason for this was Hungary's preparation for EU accession, which essentially included under-

## ARTICIPATION OF H.A.Ph.W IN THE WORK *Of the European Association of Pharmaceutical Full-Line Wholesalers*

standing EU recommendations for the regulation of the pharmaceutical wholesale trade, as part of the legal harmonization process. The Hungarian Association recognized the need to gain an in-depth understanding of the pharmaceutical wholesale practices and experience of European countries, thereby helping its member organizations improve their existing services and so conform to European standards.

The efforts of the Hungarian Association were in line with GIRP's objectives, including the improvement of modern wholesale trade in GIRP member countries in order to ensure a safe continuous supply of medicines to sick people.

In the period from 2001 to 2003, the Hungarian Association was represented at presidential level at international GIRP conferences. In 2003, the last "GIRP East European Conference" before the EU accession of the East European candidate countries was held in Budapest, with the assistance of the Hungarian Association. The conference focused on preparing the national pharmaceutical wholesale sector of candidate countries to meet EU requirements. Complete professional cooperation by the Hungarian Association was achieved in 2004 when it was granted full GIRP membership. Since that time, the delegates of the Hungarian Association have been involved in the work of GIRP professional committees, for example, the Executive Committee and the Technical Committee, with consultation and voting rights. At these committees, Members discuss the actual situation of and other matters relating to the European wholesale trade, make decisions and give an opinion about issues raised by GIRP at meetings of committees of the Council of Europe and other professional organizations.

● Austria ● Belgium ● Czech Republic ● Denmark ● Estonia ● Finland ● France ● Germany ● Great Britain ● Greece ● Hungary ● Ireland ● Italy ● Latvia ● Lithuania ● Luxemburg ● the Netherlands ● Norway ● Poland ● Portugal ● Slovenia ● Spain ● Sweden ● Switzerland

GIRP publishes regular information materials to keep its member organizations, including the Hungarian Association, informed of news and events relating to the European pharmaceutical market. In addition, personal consultation is offered to help clarify issues arising out of the day-to-day work of GIRP and its member organizations. The professional conferences held within the framework of the annual General Meetings of GIRP provide further support for the realization of common objectives.



## History of PHARMACEUTICAL WHOLESALE TRADE IN HUNGARY

macies appeared. It was at this time that the order of drug material acquirers (later called druggists) appeared. These can be regarded as the ancestors of pharmaceutical wholesalers.

The first public pharmacy was opened in Naples, Europe, in 1140. Some 200-300 years later, in the 14th century, a pharmacy was opened in Buda, and in 1421 the "Buda Code" containing regulations for the operation of pharmacies was published. Thus, the history of the pharmaceutical wholesale trade in Hungary goes back to the 1400's.

In the Middle Ages, pharmacies continued to collect and process, as far as possible, everything they needed themselves, and produced composite drugs in their own laboratories.

Only rare and special materials were ordered from druggists, mostly from Italian merchants (from Florence and Venice). In general, merchants sold these together with spices and other raw materials. The Italian connection lapsed after the Mohács Disaster (1526); thereafter, medicines were imported from Vienna.

The chemical industry emerged in the 1600's; a network of agents supplying pharmacies with basic materials developed along with it.

Drug safety requirements appeared soon after this: Lex Sanitaris Ferdinanda (an act promulgated under Ferdinand III in 1644) laid down provisions for the quality of certain pharmaceutical materials. This act said that only teriacum and mediate (plant materials whose origin is no longer known) of high quality, obtained from Vienna or Venice, might be sold. Further, this act laid down that only pharmacies were entitled to sell small doses of drugs directly to patients, while druggists were forbidden to do so (as were confectioners and retailers).

Until the emergence of Hungarian pharmaceutical manufacturing plants, the wholesale trade sector of medicinal products supplied Hungarian pharmacies with basic materials for such products - produced for the most part in German pharmaceutical factories - from abroad, chiefly from Austria.

The products of pharmaceutical factories, operating

abroad and later in Hungary, were taken to pharmacies by licensed wholesale druggists. Wholesale companies dealing with medicinal products traded primarily in colonial goods and herbs, and dealt with pharmaceutical materials as a side-line. Later, with the development of pharmaceutical factories, more and more medicines came onto the market, which boosted the development of the agency business.

Frigyes Kochmeister founded its company, which initially dealt with herbs and colonial goods, in 1842.

Thallmayer and Seitz, a company originally set up as a herb store, became engaged in the wholesale of medicinal products in 1877.

By about 1860, "Holy Spirit" pharmacy, owned by József Török, was distributing the products of numerous foreign factories as a wholesaler. In 1932, it continued its operation under the name of Török-Labor Medicinal Product Wholesale House and Chemical Factory, and became involved in medicine production.

Pharmaceutical factories launched drug specialties, and became engaged in direct supply to pharmacies. By the time of the period between World Wars I and II, numerous small and large medicinal product wholesalers were operating, including, for example:

● Successors of Frigyes Kochmeister ● Gyula Marosszéki ● Ottó Mihály ● Rex Rt. ● József Szerémi ● Thallmayer & Seitz ● Török-Labor ● Vitachemia  
Wholesalers established an organization for the protection of their interests, called the National Association of Hungarian Medicinal Product Wholesalers. In 1942, this organization donated a considerable sum for the purchase of the headquarters of the National Pharmacist Board.

### From Nationalization to Political Transition

Pharmaceutical factories were nationalized after World War II, in 1948, with medicinal product wholesale companies coming under state control in 1949, and the National Trading Company for Medicals being established in the same year as a single wholesaler.

After the nationalization of pharmacies on July 28, 1950, "pharmacy centers" were set up in each county. The operation of these centers were controlled by the local governments. At that time, all pharmacies across Hungary were supplied from Budapest by the National Trading Company for Medicals ("Gyógyért").

Gyógyért soon proved to be unable to ensure a sufficient supply, so regional branch stores were set up in five large towns (Debrecen, Győr, Miskolc, Pécs, Szeged). The rapid increase in medicine consumption and the need to improve supply required further decentralization; therefore, in 1952, in all counties and in the capital, a store was created at each pharmaceutical

center, known as "de-center". This store was responsible for supplying the pharmacies operating in the particular county and owned by the center. Regional stores had no relationship with factories but received supplies from Gyógyért.

After 1956, the 19 regional companies and the one in the capital came into the ownership of the council of the respective county or the capital, and continued to operate under the name of "pharmaceutical center". From 1950 to 1990, a one-channel pharmaceutical supply system operated, in other words, those involved in the trade could obtain medicines from one single source. So, the medicine supply route was the following:

pharmaceutical factory ⇒ Gyógyért  
⇒ pharmaceutical center ⇒ pharmacy

In this system, there was no real wholesaler, as only and exclusively Gyógyért had any relationship with factories, and supplied the regional centers, not the pharmacies. (Supplying hospitals was an exception, as they got their supplies directly from Gyógyért, without the involvement of the centers.)

As pharmacies had first and foremost to satisfy the needs of the CMEA countries, enormous reserve stocks were needed to bridge periods of non-production.

In principle, factories supplied products to Gyógyért on a quarterly basis, but this often meant the beginning of one quarter and the end of the next, that is, a six-month interval. Certain medicines, for which demand was small, were produced only once a year.

Therefore, at the three levels of commercial supply, stocks amounting to more than six months' turnover were stored.

The number of medicines traded was low (about 2000). Supply was basically distribution-oriented; the amount of medicines not available in sufficient quantities or at all was considerable despite the huge stocks. Therefore, Gyógyért made efforts to distribute available stocks fairly among the pharmaceutical centers, which in turn tried to distribute them fairly among pharmacies; this, of course, was an impossible task.

Because of the huge stocks and the far from modern stores, medicine stocks were replenished once or twice a month at all levels of trade. In the stores, it took several days to process orders.

For 40 years, this system of medicine supply operated in a virtually unchanged form.

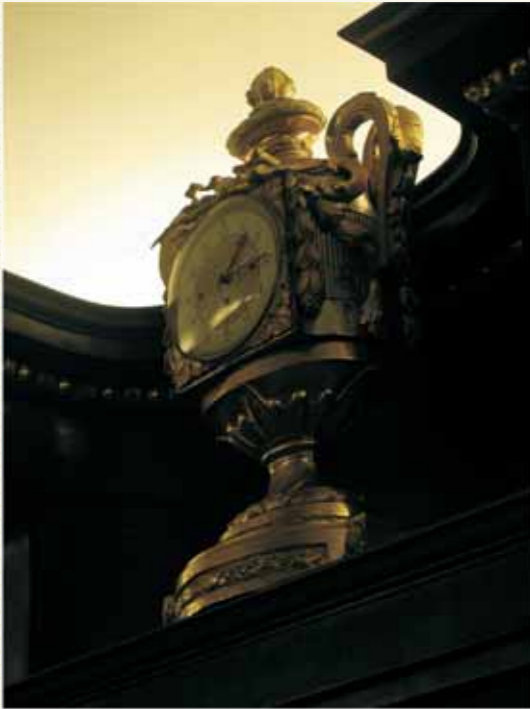
After the political transition, changes were seen in this area.



### From Origins to Nationalization

In ancient times, people used materials in the form they were found in nature for healing. Of course, these were mostly plants, with materials of animal and mineral origin being used to a lesser extent. Usually, doctor-pharmacists (these two activities did not become separate professions until much later) collected, dried and processed medicinal herbs themselves. At that time, there was no need for a system of transporting materials for medicine production.

Later, these two kinds of activities separated, and phar-



These changes were triggered by two measures taken by the Ministry of Public Welfare. The Ministry abolished the supply obligation on the one hand, and permitted the establishment of private pharmacies on the other. This brought the one-channel pharmaceutical trade system to an end, as centers could now buy directly from the factories, without involving Gyógyért, while Gyógyért, which had meanwhile changed its name to Hungaropharma, could supply private pharmacies directly.

## From the *P*OLITICAL TRANSITION TO THE PRESENT DAY

1992 saw the publication of a decree by the Ministry of Public Welfare concerning the pharmaceutical wholesale trade, which provided regulation for the somewhat chaotic situation.

In addition to the 20 pharmaceutical centers and Hungaropharma, almost 40 companies - including a number of pharmaceutical factories - were granted a license for pharmaceutical wholesale trading. As the situation of wholesale units belonging to factories was fundamentally different from that of other wholesalers, it was considered necessary to set up an organization to represent the interests of wholesalers without a manufacturing background.

This is how the Hungarian Association of Pharmaceutical Wholesalers was born in 1996, founded by Hungaropharma and those companies organized out of the 20 pharmaceutical centers.

The reorganization of pharmaceutical centers into joint stock companies started after 1992. Then this process - together with the privatization of pharmacies - came to a halt for some time because of the lack of clear legal regulation of the ownership of these centers. Their ownership by local governments was clearly stated in the autumn of 1994; with this, transformation began anew, and the privatization of the pharmacies owned by the centers began, at a time and in a manner differing from county to county.

At the same time, competition started among wholesalers, and became increasingly fierce as the process of pharmacy privatization continued. In fact, former pharmaceutical centers had to face the threat of losing their previously safe clientele, while facing competition in the open market.

In 1996, the privatization of centers and pharmacies was completed and so the reorganization of wholesale positions started. The 20 pharmaceutical centers were privatized in groups, one after another, and the owners-investors made efforts to operate them profitably. However, as a consequence of the rebate war that started in the market, only the most efficient wholesalers could survive. As a result of the fierce competition, the number of wholesalers markedly decreased; those that failed

were closed down or bought up by other wholesalers.

In this market competition, the winner was clearly Hungaropharma, the company with the biggest amount of capital, and excellent connections with manufacturers both in Hungary and abroad; this situation was maintained until the biggest German wholesaler (Phoenix) appeared in the Hungarian market. This, of course, further increased competition; as a result, since 2005, these two wholesalers (Hungaropharma and Phoenix Pharma) have supplied all parts of Hungary to high standards; in addition to them, there are two companies (Humantrade, Medimpex) that supply several areas in Hungary. The other 5-6 wholesalers operate locally. It is the pharmacies that benefit from the increasingly fierce competition, as wholesalers now offer them ever better and more modern services.

Pharmaceutical wholesale has become a multi-channel system, in other words, the link between pharmaceutical factories and pharmacies can now be covered by several wholesalers.

So, the route for medicine supply is now as follows:  
**pharmaceutical factories** ⇒ **wholesalers**  
⇒ **pharmacies**

Market conditions determine everything, in other words, everyone will purchase medicines from the source offering the most favourable conditions. Higher levels of distribution are serviced with low stock levels (amounting to 40-50 days' turnover - pharmacy and wholesaler together), and supply remains to be safe even so because production is practically continuous and manufacturers also keep stocks. The number of articles sold has now increased to over 20,000.

As a result of rapid developments in logistics, orders are processed very quickly, within about an hour, and shipments to pharmacies are made several times a day.

Over the 15 years since the political transition, the whole pharmaceutical supply system has undergone fundamental change and incredible development. In this process, pharmaceutical supply in Hungary has developed to European standards, and the operation of this supply is assured by the modern pharmaceutical wholesale trade, which creates the link between pharmaceutical factories which have continued to develop after privatization, and the revitalized pharmacies.



# PHARMACEUTICAL WHOLESALE TODAY

Since the political transition, the pharmaceutical wholesale trade has undergone substantial development. Having left the service standards we had 15 years ago far behind us (shipments twice weekly, 1-2 days needed to process orders, complete lack of computers in pharmacies), we can now state with confidence that we have attained the service standards typical of Western Europe.

The members of the Hungarian Association of Pharmaceutical Wholesalers now deliver to any pharmacy in Hungary at least twice a day, while pharmacies in big towns receive supplies up to five times a day, as needed. Orders, the majority of which are placed via computers, are processed at the store within one or two hours, and the percentage of articles in short supply, currently not available in wholesale trade, is only 1-2%.

The task to be carried out, and it is no small task, is no less than the safe supply of medicine to more than 10 million people concerned with their health. This is achieved with the assistance of manufacturers and pharmacies, which must be smoothly linked by the pharmaceutical wholesalers. We deliver 300 million boxes of medicines a year from about 230 pharmaceutical manufacturers to 2050 pharmacies, some 600 pharmacy branches, and 160 hospitals and health institutions. Through the distribution channels, we ensure compliance with the most stringent quality requirements, supply our partners with professional information, and offer numerous services intended to facilitate the daily operation of pharmacies or the financial management of hospitals.

The past ten years have certainly sorted out the participants in the pharmaceutical wholesale market. Many of them saw an opportunity in this area, but not many were able to meet the stringent trade regulations and survive in the increasingly challenging conditions. HAPW member companies have successfully fought the battles of the past ten years; their extensive profes-

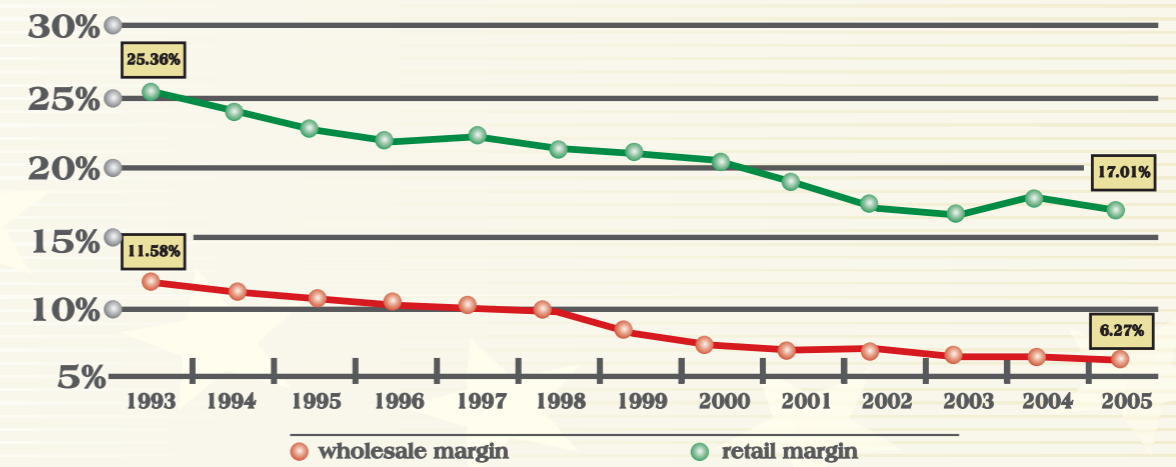
sional knowledge and solid ownership background guarantee their successful operation in the long run. Pharmaceutical wholesale activity is strictly regulated by law. Wholesale activity is dependent upon a license from the National Institute of Pharmacy, and compliance with the professional regulations is checked by the regulatory authorities on a continuous basis. The obligation to ensure a continuous medicine supply is prescribed by law; according to this, wholesalers are obliged to obtain and distribute those medicines covered by their wholesale license.

Financial security for wholesale activities is ensured by a margin, the upper limit of which is officially laid down by the Ministry of Health. A "degressive margin system" applies in this sector; the more expensive a medicine is, the smaller will be the percentage of the margin that can be realized; currently, the margin is about 5% of the medicine price. Since its introduction in 1993, the degressive margin has continuously decreased (see Figure 1), and its level is now one of the lowest in Europe. With this margin, the pharmaceutical trade sector has to operate and make an investment of more than HUF 10 billion in modern stores, vehicles and IT systems.

The main reason for the rapid concentration of this sector was market competition for orders from pharmacies and hospitals, accompanied by a constantly decreasing margin. In 2005, HAPW member companies achieved a turnover of some HUF 420 billion (EUR 1.7 billion), covering 80-85% of the market. Those companies that undertook to comply with GIRP statutes and, more importantly, its main principle, that is, full-line pharmaceutical supply, include HPH Plc., Phoenix Plc., Medimpex Plc. and Pannonmedicina Plc. Today, the pharmaceutical wholesale sector executes some 3 million orders a year, issues roughly the same number of invoices, and has vehicles that run 20-22 million kilometres a year.

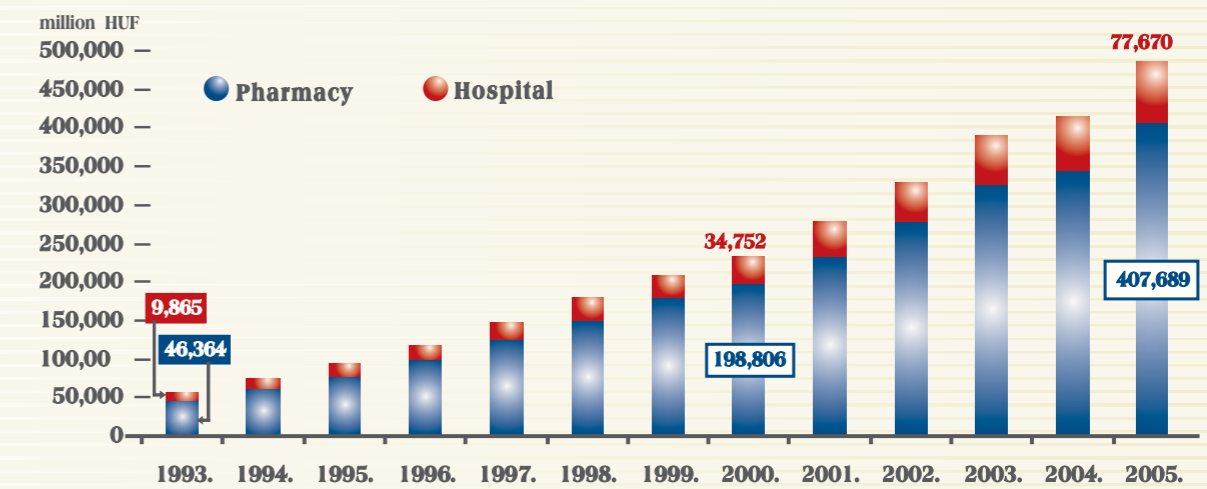
In the light of these facts, it cannot be doubted that the function the pharmaceutical wholesale trade carries out is needed both economically and socially; it provides the most efficient way of maintaining the link between pharmacies and manufacturers. We hope that the services now provided to European standards will soon be accompanied by a system of European level conditions.

## CHANGES IN WHOLESALE AND RETAIL MARGINS IN THE PHARMACY CHANNEL



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Wholesale margin	11.56%	11.10%	10.62%	10.28%	10.02%	9.69%	8.35%	7.08%	6.89%	7.16%	6.52%	6.52%	6.27%
Change	-	-0.46%	-0.48%	-0.34%	-0.26%	-0.34%	-1.34%	-1.26%	-0.20%	-0.27%	-0.64%	0.01%	-0.25%
Retail margin	25.36%	24.08%	22.71%	21.75%	22.16%	21.46%	20.96%	20.47%	18.96%	17.28%	16.69%	17.98%	17.01%
Change	-	-1.29%	-1.37%	-0.96%	0.11%	-0.70%	-0.50%	-0.49%	-1.51%	-1.68%	-0.59%	1.28%	-0.97%

## NATIONAL TURNOVER IN THE PRIVATE PHARMACY AND HOSPITAL CHANNEL



	1994 / 1993	1995 / 1994	1996 / 1995	1997 / 1996	1998 / 1997	1999 / 1998	2000 / 1999	2001 / 2000	2002 / 2001	2003 / 2002	2004 / 2003	2005 / 2004
Rate of growth	31.1%	27.3%	25.3%	26.2%	20.2%	17.5%	11.5%	18.7%	18.8%	18.2%	6%	17%
Rate of inflation	18.8%	28.2%	23.6%	18.3%	14.3%	10.0%	9.8%	6.8%	5.3%	5.2%	4.5%	3.6%

HAPW member companies have a total of 15 trade centers across Hungary. As was noted above, about 2000 specialists at these centers are involved in forwarding 300 million boxes of medicine from almost 230 manufacturers to 2050 public and 160 institutional pharmacies and, in doing so, provide a reliable service to high standards. Let us now give an overview of the activities carried out at the pharmaceutical wholesale centers by highly qualified staff operating through an infrastructure which meets European standards.

#### ● Procurement

Products sold by wholesalers are purchased from distributors with a distribution license (importers) or from manufacturers. In view of the hundreds of suppliers and the utmost importance of continuous medicine supply, purchasing at wholesalers is carried out by qualified individuals specializing in this task.

#### ● Acceptance

The quantitative and qualitative acceptance of the medicines ordered and to be supplied is the first task in which adherence to stringent regulations relating to medicine management is required.

During quantity inspection, we first of all check the number of pieces and the intactness of the standard packaging units (boxes, pallets), and follow this up with an itemized count of the medicines received. Any discrepancies are noted down and communicated to the supplier of the product concerned.

During the quality inspection, our specialists carry out an organoleptic check by sampling to verify whether the medicine received conforms to the specifications on the quality certificate and marketing license.

#### ● Release

At each medicine wholesale center, there is a quality assurance pharmacist responsible for releasing products received by the trade center and passed as quantitatively and qualitatively acceptable. Essentially, the process is that the pharmaceutical wholesaler's quality assurance pharmacist gives approval for the distribution of the medicines found acceptable.

#### ● Quality assurance

Quality assurance is one of the most important areas of pharmaceutical wholesale trading. Quality assurance specialists must ensure that only medicines of appropriate quality enter the wholesale trade, medicine quality should remain unchanged throughout the wholesale process, and it should all be properly documented. Of course, medicines unsatisfactory in some way, medicines from illegal sources and fake

## PHARMACEUTICAL WHOLESALE ACTIVITIES IN *in Hungary in the 21<sup>st</sup> Century*

medicines cannot be distributed. Screening out any such medicines is the responsibility of the pharmaceutical wholesaler.

#### ● Storage

Once released, medicines must be stored and managed, from receipt to discharge, in accordance with the relevant trade regulations. The proper storage of medicines to be kept under special conditions (narcotics, psychotropic substances, products requiring special storage temperatures) is of primary importance. For this purpose, wholesale centers operate special infrastructural units (refrigerated warehouses, narcotics rooms, and so on).

#### ● Stocks

At present, the companies belonging to the Hungarian Association of Pharmaceutical Wholesalers distribute some 11,000 kinds of medicine, including homeopathic agents, and 12,000 other



health care products. One of the most important purposes of their activity is to stock medicines in quantities sufficient for the continuous and safe execution of pharmacy orders. At the moment, this means stocks corresponding to 3-4 weeks' turnover with a value of HUF 26-30 billion (EUR 100-115 million).

#### ● Re-packaging into smaller units

In addition to selling authorized medicines received from factories as ready-made products, Hungarian pharmacies prepare magistral formulations based on prescription or trade specification. The raw materials

necessary for this are obtained from pharmaceutical wholesalers. As manufacturers generally supply raw materials in large quantities, wholesalers meet the pharmacies' needs by re-packaging them into smaller units in strict compliance with GMP (Good Manufacturing Practice).





#### ● Taking orders

During this, wholesalers take thousands of orders from pharmacies a day, and enter them into their computer system. Pharmacies may place orders in writing (by fax), verbally (by telephone), or by computer (via a modem or the internet). When an order is placed by telephone or through a computer, the buyer receives an order confirmation immediately. At the pharmacies, ordering follows an established routine, 2-3 times a day.

#### ● Picking

Once orders have been processed using modern IT devices, information is forwarded to the stores where the quantities of different medicines ordered are confirmed and picked. Modern, automatic special-purpose machines and production lines (conveying systems) are used for this purpose.

#### ● Checking

Before shipping, the picked items are subjected to control, which, however, cannot be comprehensive. Boxes are often checked automatically, by weight, and an itemized check is made if necessary.

#### ● Packaging

Wholesalers supply the medicines ordered by pharmacies in unit packaging (plastic boxes), paying special attention to the placement of medicines requiring special storage conditions (medicines to be kept in a cold place are put into cold boxes, and narcotics are put into a separate package).

#### ● Invoicing

For each order, an invoice is issued on the basis of the actual quantity supplied. The invoice is always sent to the pharmacy at the same time as the consignment.

#### ● Compilation of consignments

Pharmaceutical wholesalers ship ordered articles to their partners by pre-defined routes. When putting consignments together, the orders for the different pharmacies are grouped on the basis of these shipping routes.

#### ● Shipping

Usually, the members of the Association make shipments to their partners twice a day, but sometimes 3 or even 4 times a day. It is important to ensure that, as far as possible, pharmacies receive deliveries at the same time of the day, and can rely on this when planning their work. The companies belonging to the Association make more than 600 round trips daily, delivering several times a day, in order to ensure a continuous supply to pharmacies, hospitals and other health care institutions.

#### ● Provision of information

Wholesalers are obliged to provide their partners and customers with comprehensive information about the products they distribute (e.g. current prices, other technical and supply information). At the same time, wholesalers are obliged to ensure that the regulatory authorities receive the reports prescribed by law, and also, upon request, to compile and provide the infor-



mation requested by the competent bodies, for example, investigatory bodies or the Competition Council.

#### ● Withdrawal from the market

In addition to the above, wholesalers are responsible for implementing any ban on the distribution of non-conforming medicines when ordered to do so by the competent authorities, communicating this fact to customers, receiving and segregating withdrawn medicines which have been returned, and passing them back to the manufacturer.

As can be seen from the above, modern pharmaceutical wholesale trade is a sophisticated process as a result of which ten thousands of medicines from hundreds of manufacturers reach pharmacies and other health care institutions after safe and well-regulated storage, on a continuous basis which can be relied on at all times. In view of this, it can be stated that the supply of medicines to the people of Hungary to European standards is unimaginable without the modern pharmaceutical wholesale trade.



•HUNGAROPHARMA•

*Trading Company for Pharmaceuticals*

The legal predecessor of Hungaropharma Plc. was founded on February 25, 1949 under the name of National Trading Company for Medicals, by the nationalization and amalgamation of several wholesale companies (Thallmayer and Seitz Ltd., Rex Ltd., Kochmeister Frigyes & Co., Török Labor Ltd).

In the mid-1980's, it became necessary for the company, now called Hungaropharma Trading Company for Pharmaceuticals, to be considerably extended and for its storage capacity to be modernized so that it could comply with its obligation to hold stocks to satisfy country-wide needs. Exploiting the liberalization of imports, the company established direct links with foreign suppliers, initially this was in order to obtain individual preparations from abroad and then, from 1988, it was granted unlimited export-import rights.

From the 1950's until the early 1990's, the company was the sole player in the wholesale of medicines because of the state control of product sales and its sales relations arising out of its supply obligation.

In 1990, by an order of the Ministry of Public Welfare, the establishment of private pharmacies became possible, and this triggered market reorganization. In this situation, the company - called Hungaropharma Trading Company for Pharmaceuticals from January 1, 1993 - aimed to ensure country-wide supply and shipping on a daily basis.

In 1993, the company was reorganized into a state-owned joint stock company. In June 2002, its ordinary stock representing 50 percent + 1 vote was bought by an investment consortium.

**Trade centers**

The company's central - and also its biggest - premises operated in Gödöllő until the autumn of 2000. In operation since 1969, this warehouse had been primarily developed for the large-quantity sale of products on pallets. Because of the permanent increase in turnover, expanding the premises was a necessary and continuing process. Even so, by 1999, the situation had become intolerable and large-scale development could no longer be postponed. The construction of the new central warehouse started at Tündérfűt utca, Budapest,



in 2000. With a square meter area of 12,000 m<sup>2</sup>, this is now the biggest pharmaceutical distribution depot in Hungary. In addition to its role as a central distributor, that is, the supply of commercial houses across the country, the premises in Tündérfűt utca supply central Hungary and pharmacies in Budapest. This depot serves wholesalers and all hospitals having a contract with Hungaropharma Plc., as well as servicing other customer needs (foundations, non-profit companies). Leased stores and consignment stores also operate on the central premises. The premises at Bogácsvirág utca, Budapest, are engaged in the packaging and storage of raw materials. In order to ensure cost-efficient and flexible supply to all parts of Hungary, regional storage premises and commercial houses have been established over the past few years:

- In 1995, a commercial house was opened in Debrecen to serve some 250 partners.
- A Sales Office was opened in Nyíregyháza in 1999.
- Veszprém Commercial House, established in 1996, now serves more than 270 pharmacies.
- Sales Office was opened in Szombathely in 1999, that enabled the increase of turnover.
- The conversion of the Békéscsaba Commercial House was completed in 1998, and it now serves 224 pharmacies.
- Hungaropharma opened its Miskolc Commercial House in July 2003; this facility now serves 205 partners in the North-East region of Hungary.
- For a few years, Hungaropharma served Southern Transdanubia through Sanovita Ltd., the former Pharmaceutical Center of Somogy County. On September 1, 2004, Sanovita Ltd. merged with Hungaropharma, and has since operated as Kaposvár Commercial House.

**Specialties**

Hungaropharma Plc. distributes all kinds of medicines which have been authorized in Hungary and almost the full range of products sold in pharmacies, that is, some 16,000 different kinds of article.

On top of this, what is supplied includes almost 6000 kinds of products not qualifying as medicine but sold in pharmacies.

In 2005, 123 million boxes of medicines were delivered

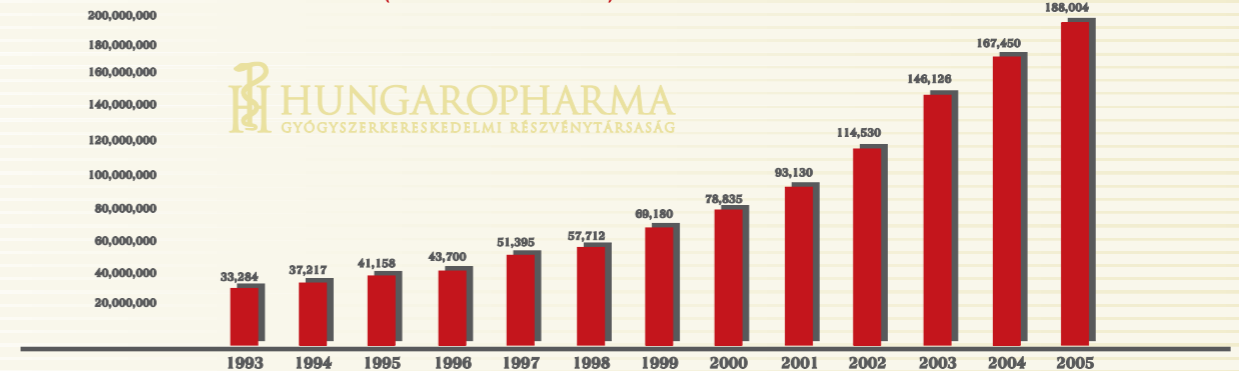


to fulfill 970,000 orders; in the course of this, the vehicles did a total of 8.6 million kilometres.

- The company headquarters are located at H-1061 Budapest, Király u. 12.
- Ownership structure: In June 2002, the state sold ordinary shares representing 50 percent +1 vote. The members of the buying consortium have since continuously increased their share; at present, Gedeon Richter Chemical Works Ltd. (30%), EGIS Pharmaceuticals Plc. (30%), Béres Investment Ltd. (30%) and Hungarian Pharmaceutical Holding Company (7%) together have a controlling interest of almost 100%.
- Sales revenue in 2005: HUF 188 billion (hospitals and pharmacies)
- Market share: 35% (pharmaceutical market as a whole)

- Trade centers: Budapest, Miskolc, Debrecen, Békéscsaba, Kaposvár, Veszprém
- Frequency of shipping: 3-4 times a day in big towns, twice a day in small towns, once a day elsewhere
- Number of round trips: 213/day
- Staff: 931
- Number of partners: 2005 private pharmacies 69 institutional pharmacies 165 hospitals and health institutions 200 manufacturers 27 pharmaceutical wholesalers
- Affiliate: Hungaro-Gal LLC., Kaposvár

**NET SALES REVENUE (million HUF)**



**AVERAGE STAFF (PERSONS)**

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Persons	895	926	865	864	907	908	854	914	922	944	931



• PHOENIX PHARMA •

*Trading Company for Pharmaceuticals*

The legal predecessor of Phoenix Parma Plc., called Pest County Pharmacy Center, was founded by the National Economy Council. This company was responsible for supplying the people of Pest county with medicines. It was involved in operating the county's pharmacies, satisfying medicine needs from a central store, and supplying these pharmacies with galenic medicines through its medicine preparation and testing laboratories.

In 1957, the company was placed under council control, and so its name was changed to Pharmaceutical Center of the Council of Pest County.

Regarding its turnover, the number of pharmacies it operated and the size of its staff, the Center was the second biggest of the 20 pharmaceutical centers. Owing to its skilled leadership and excellent middle managers the company had, in the area of medicines, always played an important role in scientific life and professional circles. For a long time (1959-1983), Dr. Kurt Kempler, chief pharmacist, had a most influential role in the life and development of the Center. In 1983, Dr. György Südy took over his job; it was he and Dr. Gabrilla Duha, appointed as director in 1987, who together oversaw the privatization of the company.

In preparation for the reorganization, the name of the Center was changed first to Parma Pharmacy Medicine Supply Company and then, during the reorganization in 1995, to Parma Medicine Supply Ltd.

The privatization of pharmacies was completed in the same year; in December 1995, the biggest German wholesaler, Phoenix, purchased 96% of the company's shares.

The new owner was aiming at market leadership in the supply of public pharmacies, and so carried out a major reorganization and expansion. Calix Ltd. (former Pharmaceutical Center of Bács-Kiskun County) was purchased in 1996; after its amalgamation, the company continued to operate under the name of Phoenix Pharma Trading Company for Pharmaceuticals.

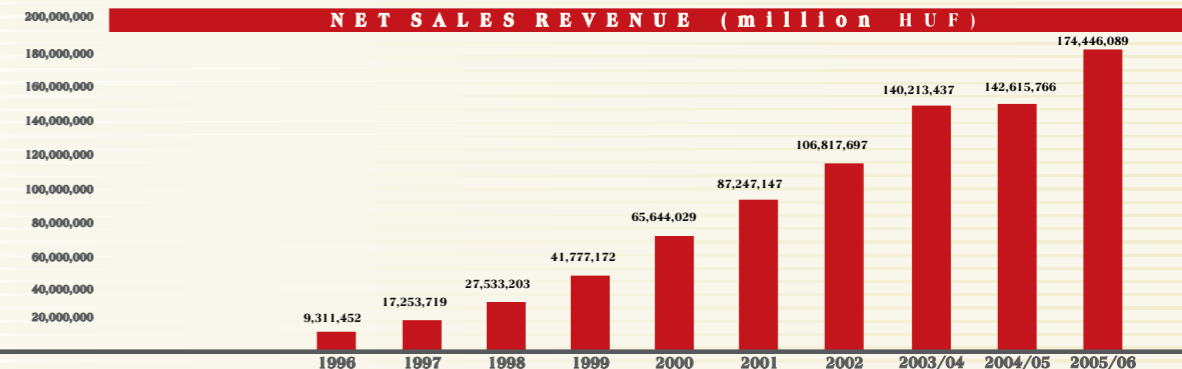
Further investments were the building of a new center in Fót and the expansion of the warehouse in 1996. After the privatization of Westpharma Ltd., a trade cen-

tre was opened in Győr in 1999, and in Zalaegerszeg and Szeged in 2000.

A new central warehouse was built in Fót in the latter year. In 2001, a new trade center was built in Polgár as a green-field investment, and Bellis Ltd. was integrated into the company in 2003.

As a result of scheduled and purposeful development, Phoenix is now able to make at least two deliveries a day to all pharmacies across Hungary from 6 sites. Based on its excellent logistic services, and by means of a conscious and effective commercial operation, the initial 5% market share existing in 1996 has increased seven-fold over the past 10 years.

- Headquarters: H-2151 Fót, Keleti Márton u. 19.
- Owner: Phoenix Pharmahandel AG & Co.
- Sales revenue in 2005: HUF 175 billion
- Market share: 34% (whole market)
- Trade centers: Fót, Kecskemét, Győr, Zalaegerszeg, Szeged, Polgár
- Frequency of shipping:  
in all parts of Hungary: twice a day  
special areas: 3-4 times a day
- Number of round trips: 233/day
- Staff: 591 persons
- Number of partners: 2052, including 1800 public pharmacies
- Affiliates: Parma Produkt Pharmaceutical Company  
Sphere of activity: pharmaceutical production, staff: 69 persons  
Phoenix Magi Ltd.  
Sphere of activity: packaging  
Staff: 26 persons



YEAR	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
PERSONS	425	429	413	511	636	618	623	659	6182	608	621



• MEDIMPEX •

*Trading Company for Pharmaceuticals*

Medimpex Trading Company for Pharmaceuticals was established in 1996 by Gedeon Richter Chemical Works Ltd. and Medimpex Trading Ltd., each having an 50% ownership share. Leaving ownership ratios unchanged, EGIS Pharmaceuticals Ltd. replaced Medimpex Trading Ltd. on September 19, 2001.

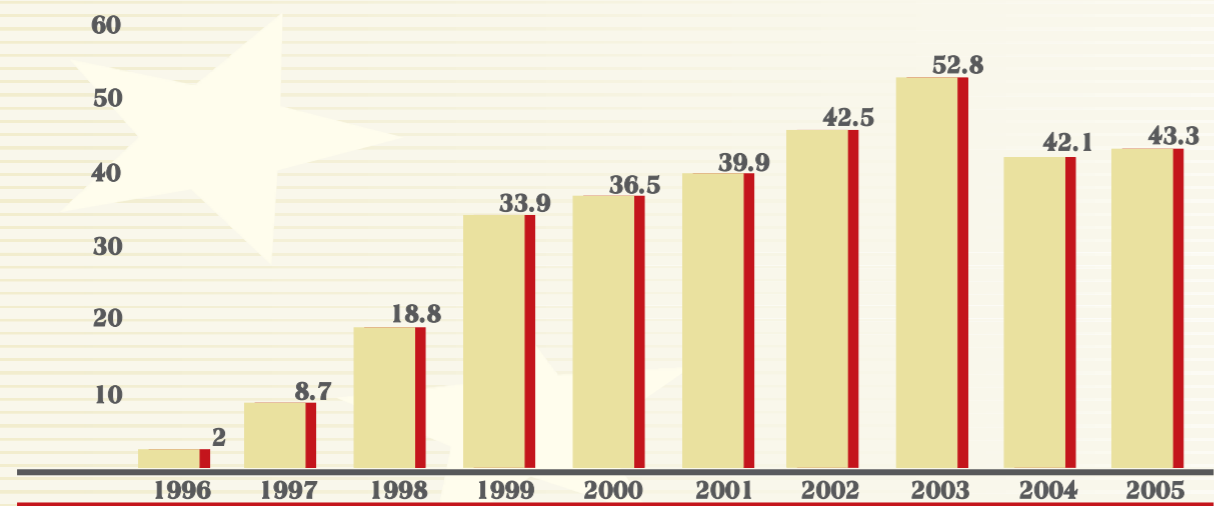
On October 5, 2004, the share capital of the company was increased to HUF 2 billion.

As for its sphere of activities, the company is engaged in the acquisition of human medicines, medical preparations for animals, paramedicines and health care products from Hungary and abroad, and their sale in Hungary.

The majority of its partners are pharmacies. Almost 95% of its sales revenue comes from the sale of human medicines in Hungary, 90% of which is sold to pharmacies. In its veterinary business, the com-



NET SALES REVENUE (million HUF)



AVERAGE STAFF (PERSONS)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2005
Persons	140	191	188	192	201	203	197	197	200	204	204

pany previously sold medicines primarily for the treatment of domestic animals.

However, in order to counteract the decrease in sales due to the considerable reduction in the number of domestic animals and the substantial worsening of the financial situation of its clientele, Medimpex launched its pet business line. The sale of paramedical products was optimized in 2005.

In 2004, a new Medimpex warehouse base was opened in Szombathely, which helped raise the quality of service to pharmacies in Western Hungary. Medexpress Llc., a shipping company established by Medimpex in 1998 and fully owned by it, was merged into the company in 2005.

As a special service, this affiliate is involved in the night-time shipment of medicines into safe-boxes installed on pharmacy premises.

• Headquarters:  
H-1151 Budapest, Károlyi Sándor út 121.

- Ownership structure:  
EGIS Pharmaceuticals Ltd. and Gedeon Richter Chemical Works Ltd., each holding a 50% share
- Consolidated net sales revenue in 2005: HUF 43.3 Bln
- Share of the national pharmacy market: 7%
- Trade centers:  
H-1151 Budapest, Károlyi Sándor út 121.  
H-9700 Szombathely, Puskás Tivadar u. 5.
- Staff: 200 persons
- Number of partners: 1900
- Frequency of shipping:  
Once a day, or twice a day in certain areas
- Number of round trips: 175/day
- Shareholding: The company holds a majority share in Pannonmedicina Plc., Pécs, which is Hungary's biggest regional wholesaler, and has a share in Recyclomed Non-Profit Company.



**• PANNONMEDICINA •**  
*Trading Company for Pharmaceuticals*



The legal predecessor of the company was founded in 1950 as a state-owned company to supply Baranya county with medicines. It has in fact been engaged in pharmaceutical wholesale since its reorganization into a joint stock company after privatization, on January 1, 1996. Today, as a regional pharmaceutical wholesaler, Pannonmedicina operates mainly in Southern Transdanubia. It sells a full line of pharmaceutical products, and operates assembly technology supported by a modern IT system.

**Special services**

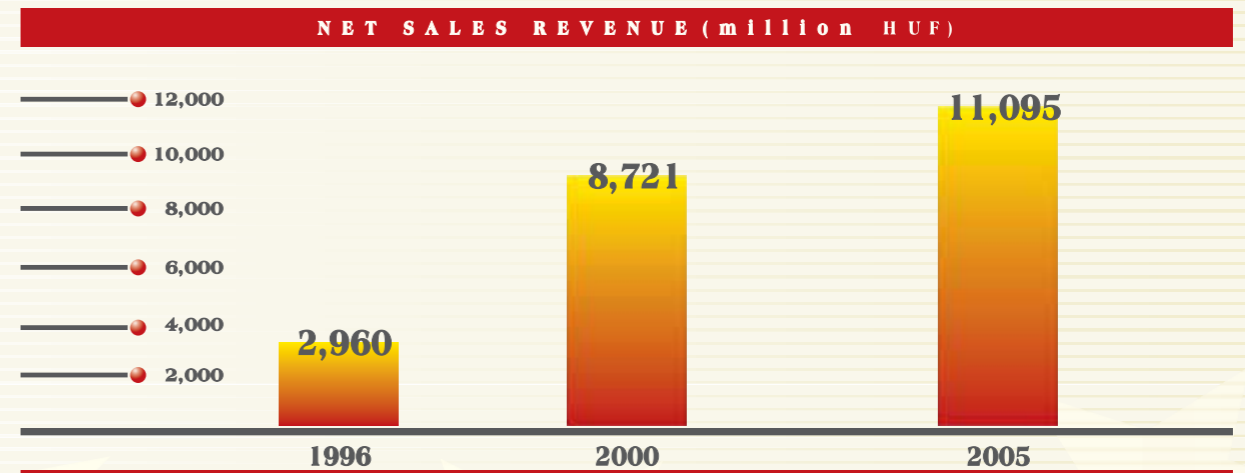
Pannonmedicina has introduced and successfully operated night-time shipment of medicines into safe-boxes installed on pharmacy premises. Night-time medicine shipment makes a contribution of more than 50% to the sales revenue of the company.

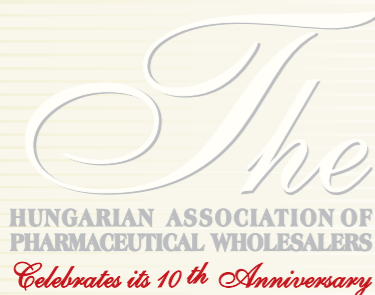
**The company has**

- a packaging plant,
- a quality control laboratory for the comprehensive testing of pharmaceutical materials, and in addition,
- a production license for the re-packaging of pharmaceutical materials into smaller units and the re-labelling of registered medicines.

**Other significant facts from establishment to the present time**

- permanent liquidity,
- acceptable level of profitability,
- balanced financial operation.
- Headquarters: H-7634 Pécs, Ürögi fasor 2/a.
- Ownership structure: the majority owner is Medimpex Trading Company for Pharmaceuticals, owned by EGIS Pharmaceuticals Ltd. and Gedeon Richter Ltd., each holding a 50% share.
- Sales revenue: HUF 11 billion (2005)
- Market share: about 3% (pharmacy market)
- Number of trade centers: 1
- Frequency of shipping: 1-3 times a day
- Number of round trips: 15/day
- Staff: 130 persons
- Number of partners: about 300





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