



**Development strategy of the limited liability partnership "SK - PHARMACEUTICALS"**

**for 2024 - 2028**

**Approved by decision of the Supervisory Board**

**dated \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_202\_**

**(protocol No.\_\_\_)**

**CONTENTS**

[**1.** **INTRODUCTION** 4](#_Toc156315540)

[**2.** **ANALYSIS OF THE EXTERNAL ENVIRONMENT** 5](#_Toc156315541)

[**2.1.** **International experience of centralization of drug provision** 5](#_Toc156315542)

[**2.2.** **Issues of drug provision and development of the domestic pharmaceutical industry** 8](#_Toc156315543)

[**2.3.** **Development of medical and pharmaceutical science** 9](#_Toc156315544)

[**2.4.** **Analysis of the pharmaceutical market** 10](#_Toc156315545)

[**2.5.** **The influence of the Eurasian Economic Union on the pharmaceutical market of Kazakhstan** 11](#_Toc156315546)

[**2.6.** **System of state material reserve** 14](#_Toc156315547)

[**2.7.** **Warehouse and transportation logistics..** 16](#_Toc156315548)

[**3.** **ANALYSIS OF THE INTERNAL ENVIRONMENT** 19](#_Toc156315549)

[**3.1.** **Results of the main activity** 19](#_Toc156315550)

[**3.2.** **Centralization of the procurement of medical equipment at the level of the Unified Distributor** 23](#_Toc156315551)

[**3.3.** **The** **Unified Distributor Reboot Program** 23](#_Toc156315552)

[**3.3.1 Improvement of purchasing procedures** 24](#_Toc156315553)

[**3.3.2. Support for domestic producers and entrepreneurial initiatives and development of the BigPharma program** 24](#_Toc156315554)

[**3.3.3. International cooperation** 26](#_Toc156315555)

[**3.3.4. Improvement of operational logistics** 27](#_Toc156315556)

[**3.4.** **Financial indicators** 28](#_Toc156315557)

[**3.5.** **Formation of a communication channel** 30](#_Toc156315558)

[**3.6.** **Risk management and internal control** 31](#_Toc156315559)

[**3.7.** **Concept for the development of information systems of the Unified Distributor** 32](#_Toc156315560)

[**3.8.** **Counteraction to the corruption** 34](#_Toc156315561)

[**3.9.** **Implementation of the Development Strategy of SK-Pharmaceuticals LLP for 2019-2023**. 34](#_Toc156315562)

[**4.** **SWOT - ANALYSIS** 37](#_Toc156315563)

[**5.** **MISSION. VISION. STRATEGIC GOALS AND OBJECTIVES. KEY PERFORMANCE INDICATORS.** 39](#_Toc156315564)

[**5.1. GOAL 1. - ENSURING UNINTERRUPTED SUPPLY OF MEDICINES AND MEDICAL PRODUCTS WITHIN GVFMC, CSHI AND MOBILIZATION RESERVE** 40](#_Toc156315565)

[**Objective 1.1. Creation of an effective logistics infrastructure** 45](#_Toc156315566)

[**Objective 1.2. Implementation of an IT system for tracking supply chains of medicines and medical devices** 46](#_Toc156315567)

[**Objective 1.3. Increasing the efficiency of internal business processes and their automation** 46](#_Toc156315568)

[**Objective 1.4. Improving institutional mechanisms to attract and support foreign and domestic investors** 46](#_Toc156315569)

[**5.2.** **GOAL 2. IMPROVEMENT OF THE CORPORATE GOVERNANCE SYSTEM AND ENSURING FINANCIAL STABILITY OF A UNIFIED DISTRIBUTOR** 47](#_Toc156315570)

[**Objective 2.1. Development of human capital and management of corporate communications** 49](#_Toc156315571)

[**Objective 2.2. Integration of process management, internal control and risk management systems** 50](#_Toc156315572)

[**Objective 2.3. Fulfillment of financial performance indicators up to 100%** 50](#_Toc156315573)

[**6.** **KEY RISKS** 50](#_Toc156315574)

[**7.** **KEY EFFECTS OF THE STRATEGY** 53](#_Toc156315575)

[**8.** **ARCHITECTURE OF INTERACTION OF STRATEGIC AND BUDGET PLANNING** 54](#_Toc156315576)

[**9.** **ROADMAP FOR IMPLEMENTATION OF THE DEVELOPMENT STRATEGY OF SK-Pharmaceuticals LLP FOR 2024-2028** 55](#_Toc156315577)

[**10.** **METHODOLOGY FOR CALCULATING KEY PERFORMANCE INDICATORS** 58](#_Toc156315578)

# **INTRODUCTION**

Current global health trends show that the share of health care expenditures in the state budget is one of the critical indicators of socio-economic policy. At the same time, the costs of drug provision, both for the state budget and in terms of individual consumer expenses, are among the most significant.

Over the past decade, most countries have been reforming the drug supply system towards centralizing the procurement of pharmaceutical and medical products, reducing prices under various price-volume agreements, introducing a system of external and internal reference prices, regulating profit margins at the stages of sales of medical goods, reducing VAT on them. These measures are due to the impact of the global economic crisis and the need to save budget funds.

In recent years, an increasing number of developing countries have successfully used the flexibility provided for in the World Trade Organization (WTO) Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRAIRR) to reduce costs and expand access to essential medicines by facilitating the local production or import of generic drugs.

A significant part of the world's countries are striving (in different ways and with varying success) for universal coverage of the population with affordable medical care, including centralized procurement of medicines.

The problem of drug supply in the Republic of Kazakhstan is in the focus of attention of the Head of State and the state policy of the country and is reflected in many government documents:

**Instructions from the Head of State given at an extended meeting of the Government on July 10, 2021:** « It may be necessary to centralize the purchase of medical equipment, following the example of the purchase of medicines from SK-Pharmaceuticals. By the way, there have been some improvements in the work of this company.»

**Instruction from the Head of State given at an extended meeting of the Government on February 8, 2022:** «Regions systematically inflate estimates and prices for equipment. Huge amounts of money are spent on its maintenance. Therefore, I instruct the Government to switch to centralized procurement of medical equipment on the basis of SK-Pharmaceuticals.

**Message from the Head of State to the people of Kazakhstan “Unity of the people and systemic reforms are a solid foundation for the country’s prosperity” dated September 1, 2022**: « Cooperation with global pharmaceutical corporations should be intensified. It is important to attract investors, ensure the transfer of technology and the latest developments. It is necessary to expand the scope and range of off-take contracts with domestic manufacturers. The share of domestically produced medicines and medical products must be increased from the current 17 to 50% already in 2025.».

**The Code of the Republic of Kazakhstan “On the health of the people and the healthcare system”** defines the main functions of the Unified Distributor for drug provision within the framework of the Statewide Fund for Medical Care and Compulsory Medical Insurance, including the functions of supply, storage and refreshment of drugs and medical supplies of the mobilization reserve. Also, **by the Law of the Republic of Kazakhstan “On introducing amendments and additions to some legislative acts of the Republic of Kazakhstan on issues of mobilization preparation and mobilization”** dated May 25, 2020, the Ministry of Health of the Republic of Kazakhstan, represented by SK-Pharmaceuticals LLP, transferred powers for the supply, storage of drugs and medical devices of the mobilization reserve.

Strategic indicators of Nationwide Priority 2. An accessible and effective healthcare system in **the National Development Plan of the Republic of Kazakhstan until 2025, approved by Decree of the President of the Republic of Kazakhstan dated February 15, 2018 No. 636:** *“The level of population satisfaction with the quality and accessibility of medical services provided by medical institutions will reach 73.0 (%) by 2023, and 80.0 (%) by 2025.”* It should be noted that the implementation of medium-term goals in the field of public health protection within the framework of the National Development Plan of the Republic of Kazakhstan until 2025 provides for **a transition from a traditional healthcare system to patient-centered medicine** focused on improving the health of citizens, from inequality in the quality of medical care between urban and rural settlements to the widespread provision of high-quality medical services.

**The concept for the development of healthcare in the Republic of Kazakhstan until 2026 was approved by Decree of the Government of the Republic of Kazakhstan dated November 24, 2022 No. 945, where the main strategic indicators are:** *“The share of purchases by the Unified Distributor of domestic medicines and medical products, index - will reach 37% in 2023, in 2026 - 50 %;".*

**Decree of the Government of the Republic of Kazakhstan (in the draft open regulatory legal acts) “On approval of the Concept for the development of healthcare infrastructure for 2024 - 2030”,** in which 2 areas are the main indicators of the activities of the Unified Distributor:

*Direction 1. Improving the institutional environment and construction (reconstruction (modernization), repair) of healthcare infrastructure facilities*

*Direction 2. Equipping healthcare infrastructure with modern equipment*

*1. Target indicators and expected results –*

*• Share of domestic manufacturers in the market of drugs and medical devices, in %*

*• Equipping of healthcare infrastructure facilities with equipment (medical, laboratory), in %.*

**Order of the Minister of Health of the Republic of Kazakhstan dated June 7, 2023 No. 110** "On approval of the rules for the organization and procurement of medicines, medical devices and specialized medical products within the guaranteed volume of free medical care, additional medical care for persons held in pre-trial detention centers and institutions of the penal (penitentiary) system, at the expense of budgetary funds and (or) in the system of compulsory social health insurance, pharmaceutical services" (hereinafter referred to as Regulation No. 110).

Thus, the creation of a Unified Distributor is a clear proof that the state pays increased attention to the issues of providing medicines to the population.

# **ANALYSIS OF THE EXTERNAL ENVIRONMENT**

# **International experience of centralization of drug provision**

Ensuring access to quality-assured medicines remains an ongoing challenge with complex roots, including global economic structures that reward monopolistic behavior, information asymmetries due to lack of price and cost transparency, chronic underinvestment in health systems, and corruption.

In this regard, an approach such as “pooled procurement” is one of the ways to solve a number of problems associated with limited access to medicines, small sales market capacity, limited technical capabilities and human resources, as well as insufficient incentives for production. Essentially, pooled purchasing (also called joint, wholesale, group, centralized, cooperative or joint purchasing) can be defined as a joint initiative of buyers who consolidate their purchases. Pooled purchasing mechanisms have been implemented to achieve various objectives, including lower prices caused by demand aggregation, improving purchasing efficiency and quality standards through the sharing of technical capabilities and human resources, increasing availability and ensuring supply sustainability by incentivizing suppliers and consequently increasing competition between them.

The history of joint procurement mechanisms for medicines included in the global health agenda dates back to the late 1970s. In 1978, the World Health Assembly (A31.32) emphasized that collective procurement can significantly reduce the cost of medicines. Around the same time, the first joint procurement mechanisms between countries were established, including the Gulf Cooperation Council (GCC) and the Revolving Fund of the Pan American Health Organization (PAHO) for the collective purchase of medicines and vaccines. Driven by the AIDS epidemic in the late 1990s, global health organizations such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), the Global Drug Facility (GDF), the President's Emergency Plan for AIDS Relief, PEPFAR) and the Global Alliance for Vaccines and Immunization (GAVI), which began providing access to affordable and high-quality medicines based on the principles of pooled procurement.

**Pooled procurement is considered successful in the context of global disease-specific programs** of third-party organizations such as GDF, the Global Fund, and PEPFAR. Building on the achievements of these global health organizations in consolidating demand and lowering prices, and driven in part by recipient countries' shift away from donor funding, **pooled procurement mechanisms are now being promoted in other settings, such as cross-country mechanisms**. More recently, the Covid-19 pandemic has led to increased use of pooled procurement mechanisms. Europe, Africa and the Americas, through the global Covax initiative, have come together to procure vaccines and personal protective equipment in the fight against Covid-19.

Pooled procurement mechanisms are not a simple, uniform and universal solution, moreover, they do not always solve the same problem. These mechanisms are complex, diverse, multicomponent and context-dependent, differ in structural form, level of operation and type of product. In addition, these mechanisms require active work and efforts on the part of the parties involved to coordinate various motivations, goals and intentions. The expansion of the use of pooled procurement and the selection of the most appropriate mechanism and structure should be based on a clear understanding of these factors.

According to one of the global joint procurement studies conducted by a group of researchers in 2020 and published in the international transdisciplinary journal Globalization and Health "Systematic Review of joint Procurement of Medicines and vaccines: identifying elements of success", the goals of various organizations for joint procurement were grouped, where in 28 of the 54 analyzed cases the goal of "price reduction" was mentioned / cost containment" (Figure 1).

**Figure 1. Mention of pooled procurement objectives by different organizations**

It is worth noting that one of the examples of successful centralization of drug provision is Canada, where the centralization of drug provision began in 1997 with the creation of the Public Health Agency of Canada (PHAC). PHAC deals with centralized procurement of medicines, medical equipment and other healthcare products. The Public Health Agency of Canada is part of the federal health portfolio. Its activities focus on preventing illness and injury, responding to threats to public health, promoting good physical and mental health, and providing information to support informed decision-making.

The Canadian experience of centralization has made it possible to reduce the cost of medicines through wholesale purchases, improve procurement efficiency and increase the availability of medicines to the public. In addition, PHAC is working to improve the quality of drugs by conducting quality control and monitoring of side effects.

Another example is the United Kingdom, where in 2009 the centralized NHS Supply Chain was established, which deals with the purchase and distribution of medicines for the National Health Service (NHS). This organization has also been able to reduce the cost of medicines and improve their accessibility to patients.

In general, centralized or pooled purchases of medical supplies are increasingly being promoted as a solution to lower prices, increase accessibility, and achieve more efficient procurement processes. However, little is known about what is necessary for the successful implementation of pooled procurement mechanisms and how they function in specific circumstances, nevertheless, international experience in the centralization of drug provision shows that **such a model has its advantages and disadvantages. Some of the main advantages of centralization include:**

1. Improvement of the Efficiency: Centralization allows for improved coordination and management of drug supply, which can lead to greater efficiency in the use of resources and better organization of processes. This allows us to reduce costs and increase the availability of medicines for the population.

2. Improvement of the Quality: Centralization allows for more careful control of the quality and safety of medicines, which in turn increases the safety and effectiveness of treatment. The centralized system also allows for broader research and analysis of drug use data.

3. Improvement of the Transport logistics: Centralization of drug supply can also lead to improved transport logistics and distribution of medicines. This is especially important for regions with limited access to medical facilities or complex infrastructure.

4. Globalization: active international and regional cooperation, cooperation with international organizations and experts to improve the quality of services, availability of medicines and exchange of experience.

However, centralization of drug provision also has its disadvantages and raises some concerns:

1. Risk of scarcity and lack of flexibility: A centralized system can lead to a risk of drug shortages, especially in the event of accidents or emergencies. Centralization may also limit the flexibility in choosing medications and the availability of various treatment options.

2. Bureaucratic obstacles and additional costs: Centralization requires a certain level of bureaucracy and increases administrative costs. This can lead to an increase in the time required to obtain medicines and an increase in their prices.

3. Restriction of competition: A centralized system may restrict access to medicines from independent manufacturers, which may limit competition and innovation in this area.

Of course, the optimal drug supply model may depend on the specific conditions and needs of each country or region. This requires a balance between centralization and decentralization to ensure the effectiveness, accessibility and quality of medicines for the population.

# **Issues of drug supply and development of the domestic pharmaceutical industry**

As part of improving the planning and procurement system for drugs and medical devices, from January 1, 2018, centralized procurement by the Unified Distributor of Medicines as part of outpatient drug provision was introduced in Kazakhstan. This allowed saving the country’s budget: in 2018 – 23.4 billion tenge, in 2019 – 12.8 billion tenge, in 2020 about 10.2 billion tenge, in 2021 – 32.7 billion tenge. Price regulation for all medicines and electronic recording of the issuance of free medicines have been introduced.

In all regions of the republic, the introduction of an automated Information System for medicines provision (ISMP) has begun, which allows real-time tracking of prescriptions by doctors, the actual receipt by each patient of prescribed drugs guaranteed by the state. The release of medicines is carried out through pharmacy organizations providing pharmaceutical services, in remote rural areas – through primary health care organizations, mobile pharmacy points for retail drug provision.

However, the low level of automation of planning and procurement, the lack of personal digital accounting of medicines and medical devices do not make it possible to fully monitor the effectiveness of providing organizations and the population with them.

At the same time, the share of purchase of medicines and medical products of domestic production is important in the provision of medicines. In 2021, the share of domestic products from all purchased medicines and medical devices, taking into account the purchase of the domestic vaccine against COVID-19, amounted to 41% (excluding vaccination – 25.0%). Among them, 46 types of medicines for the treatment of COVID-19 have been purchased, and stabilization funds for medicines have been formed in the regions. At the outpatient level, the nosology of COVID-19 has been introduced, including 5 names of drugs.

Also, starting from 2020, the Unified Distributor decided to form a monthly supply in all medical organizations (infectious diseases and pharmacist centers) in the Republic of Kazakhstan, which is promptly replenished by the purchased additional volume of medicines and medical products.

The share of domestically produced medicines in the pharmaceutical market of Kazakhstan amounted to 23.4% in 2021 (12% in 2017), which characterizes the portfolio of our manufacturers as low-margin and represented mainly by generic drugs, while ensuring the national drug safety of the country should be at least 30%. This increase is also due to an increase in the number of concluded long–term contracts (up to 10 years) with domestic producers (hereinafter - DP): in 2021. - 88 contracts with 34 DPs for 4,688 items (920 for medicines and 3,768 for medical devices) and in 2017 – 54 contracts for 1,696 items. The rest of the medicines and medical products are supplied to the country mainly from Germany, China, Belgium, Switzerland, France, Ireland, Italy, the USA and India.

Thus, the pandemic pointed to the extreme vulnerability of Kazakhstan due to the lack of production of its own medical products, equipment, special protection, medicines and the need to develop the domestic pharmaceutical industry in Kazakhstan. In connection with the announcement of the pandemic, a ban on the export of medicines was imposed in all countries. This has become one of the important reasons for the so-called "chaos of drug provision".

In 2021, 89 enterprises produced medicines and medical devices in Kazakhstan in the pharmaceutical industry, 33 of them for the production of medicines, 41 medical devices and 15 medical equipment. At the same time, 27 manufacturers of medicines at 44 production sites comply with the standard of good manufacturing practice (GMP).

In total, 7,455 names of medicines are registered in the country, of which 12% are of domestic production (DP) (922 names), foreign manufacturers – 88% (7,106 names). There are also 9154 registered names of medical devices, of which 10% are domestic (916), and 90% are foreign manufacturers (8,238). In the structure of registered medicines, 1,863 or 25% are original, 5410 or 73% are generic, and 182 or 2% are biotechnological.

Since 2020, the Comprehensive Plan for the Development of the Pharmaceutical and Medical Industry for 2020 – 2025 has been implemented, which provides the main directions for supporting and developing the pharmaceutical and medical industry: legislative and regulatory acts regulating pharmaceutical activities, the circulation of medicines and medical devices within the EAEU, government support measures, research and development work, attracting investment, staffing the industry, labeling, traceability of medicines and increasing the capacity of domestic manufacturers of medicines and medical devices. Work is underway to increase the production of domestic vaccines, including against COVID-19.

At the same time, there is a lack of scientific research centers and pharmaceutical clusters for the development of innovative medicines and medical products, a low level of innovative technologies, high-tech innovative medicines and medical products, insufficient laboratories for preclinical research and laboratories for medical testing, insufficient trained scientific personnel and workers for pharmaceutical industries in accordance with international standards (GMP) complicate the development of the pharmaceutical industry in the country.

**The main problems of providing medicines to the population are:**

- low level of automation of planning and procurement, as well as digital accounting of medicines and medical devices;

- low investment attractiveness of the domestic pharmaceutical industry;

- low scientific, technological and human resources potential for pharmaceutical industries in accordance with GMP, including a shortage of laboratories for clinical and preclinical research;

- low share of domestic drugs in the domestic pharmaceutical consumption market.

# **Development of medical and pharmaceutical science**

It is worth noting that the main limiting factor in the development of medical science in Kazakhstan is the insufficient effectiveness of the system of training and maintaining the competencies of scientific personnel; the low level of interaction between academic and scientific structures; insufficient attractiveness of Kazakhstan for sponsors of international multicenter research, including with a low proportion of accredited laboratories/centers for compliance with international standards (20%), existing bureaucratic barriers at the level of expert bodies and imperfect legal regulation of a number of promising research areas – clinical trials of advanced therapeutics, clinical trials of drug combinations, etc.

The change in the system of training scientific personnel with the entry of Kazakhstan into the Bologna process, the closure of dissertation councils significantly affected the level of settlement of medical workers, there is an aging of the institute's staff with an academic degree, there is no influx of young researchers. Collaboration by research centers does not fully solve the problems of training qualified scientific personnel in medicine.

In order to harmonize with international standards of medical research in 2018-2019 at the legislative level: simplified licensing procedures for clinical trials; increased the role of the Bioethics Commission in monitoring medical research and introduced a procedure for their certification; defined the legal framework for conducting research involving "vulnerable research subjects"; introduced new concepts and legal norms for "research in the field of public health", "biobanks".

The main problems in the field of medical science include the low number of clinical trials conducted in the Republic of Kazakhstan (1.8 studies per 1 million population, while in France it is 57, in the USA - 55, in the UK - 38.9, in Germany – 30.6); the absence for a number of “regulated clinical trials” of an established procedure for their conduct (vaccines, stem cells, genetic technologies, medicines based on biotechnology, nanotechnology), the absence of legal norms in the field of experimental treatment (until the results of clinical trials are completed).

In this regard, in 2020, the Code of the Republic of Kazakhstan “On the health of the people and the healthcare system” included standards defining the procedure for conducting clinical trials, using and monitoring the effectiveness of advanced therapy medicines (Advanced Therapy Medicinal Products - ATMP). It is possible to use ATMP as part of an exception to the standard procedure (until the completion of clinical trials).

Due to the COVID-19 pandemic, the demand for scientific research, primarily related to healthcare and pharmacy, has increased worldwide. However, funding for biomedical research in the Republic of Kazakhstan is at a low level - 0.005% of GDP, which is 60 times less than the level of OECD countries (about 0.3% of GDP). In the United States, government spending on this research amounts to 0.2% of GDP, while private sector spending, primarily from the pharmaceutical industry, amounts to up to 0.3% of GDP. In European countries, these indicators are, respectively, 0.05% and 0.1% (industrial sector expenditures in Switzerland and Belgium - 0.6% of GDP, in Japan - 0.3%).

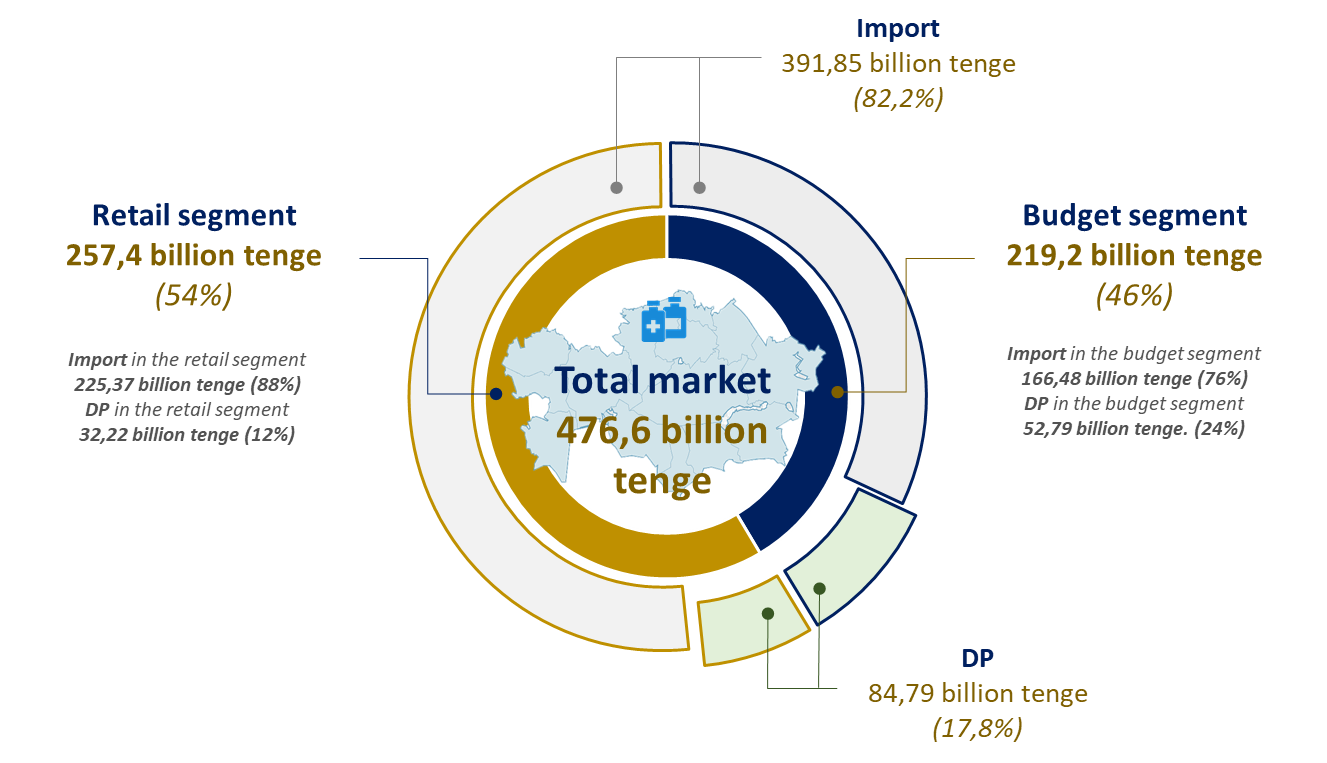
# **Analysis of the pharmaceutical market**

In recent years, Kazakhstan, like many countries of the world, has faced unprecedented challenges. The pandemic, external and internal political events had a direct impact on the state of the country's economy. Thus, one of the most important macroeconomic indicators — the index of the physical volume of GDP, characterizing the pace of economic growth, in the third quarter of 2022 amounted to only 3% relative to the corresponding period of 2021. This is certainly better than in the third quarter of 2020, but worse than in the pre-pandemic period. At the same time, there is a decrease in purchasing power in the national currency, an increase in inflation (in December 2022 it amounted to 20.3% compared to the same period in 2021) and an increase in the consumer price index (in December 2022 it amounted to 120.3% by December 2021), which negates the recorded growth in per capita income (nominal income per capita in November 2022 amounted to KZT 149,058).

Of course, all these events have affected the state of the Kazakh pharmaceutical market to one degree or another. Thus, its volume, according to the PharmXplorer market research system, decreased in both monetary and physical terms by the end of 2022. In the national currency, it amounted to 863 billion tenge, and in US dollars — 1,872 million, which is 0.8% and 8.2%, respectively, less than in the previous year. In physical terms, its volume decreased by 1.4% — from 626 million in 2021 to 618 million packages in 2022. At the same time, in monetary terms (both in tenge and dollars), there is an increase in the retail segment of the market and a slight decrease in the procurement segment within the Guaranteed Volume of Free Medical Care (GVFMC) and in the Compulsory Social Health Insurance System (CSHI). Thus, it can be stated that the pharmaceutical market is gradually returning to normal consumption of medicines after the shock demand for them, which was observed in the first year of the pandemic.

It should be noted that among all the countries of the post-Soviet space, Kazakhstan is the leader in terms of drug provision provided by GVFMC and the CSHI system. Nevertheless, the share of the retail segment in the total market volume is 61% in monetary terms (both in tenge and dollars) and 83% in physical terms. Thus, most of the medicines are sold through pharmacies, that is, they are purchased by the population at their own expense.

According to the report of the international analytical company IQVIA, **the value volume of the Kazakhstani pharmaceutical market (taking into account retail sales and purchases for GVFMC) for 6 months of 2023 amounted to 476.6 billion tenge in distributor prices, which is 17.1% higher than 6 months of 2022 (407.16 billion tenge), due to the growth of the budget segment by 21.12%, retail – 13.82%).** At the same time, the number of products sold in kind (number of packages) increased slightly, the increase was only 0.7%, which indicates an increase in the cost of 1 unit of goods. So the average market price is 1 unit. The price of goods increased by 16.23%, while the growth in the budget segment is 8.8% (stationary market – 3.9%, ALO – 5.6%), in the retail segment – 15.5% (figure).



**Figure. The structure of the pharmaceutical market in Kazakhstan in the first half of 2023 (EQVIA, 2023)**

PharmXplorer data show that the increase in the volume of the retail segment of the market in monetary terms is largely due to inflation (7.9%), i.e. wholesalers and pharmacies do not always set the highest possible price, therefore, even within the limits set by the authorized body of prices, there is a competitive struggle between market participants.

Thus, the trends in the development of the domestic market **are maintained by the contribution of innovations and an increase in the replacement index**. That is, innovative drugs are being introduced to the market, as before. At the same time, in the retail segment, the population is increasingly opting for cheaper generics and analogues. It should be noted that the main lever of price regulation is competition in both the budget and retail segments.

# **The influence of the Eurasian Economic Union on the pharmaceutical market of Kazakhstan**

In modern conditions, international integration in the pharmaceutical industry is becoming a necessary condition for the development of the industry. At the same time, the improvement of medical science and technology is determined by the use of innovative technologies that prevail in the market of medicines. In recent years, the pharmaceutical industry has faced serious challenges: first it was the COVID-19 pandemic, which required significant mobilization of all scientific and industrial resources, operational restructuring of many processes, expansion of tools for interaction and partnership at all levels, changes in the regulatory environment, then complications in the external geopolitical situation, which, although not affected by the drug provision, but they created considerable logistical difficulties for domestic drug manufacturers and caused some unrest among drug consumers.

In modern conditions, integration associations play an important role for the development of national economies. For example, the Eurasian Economic Union (EAEU) is an integration grouping, the second in the world in terms of the depth of integration ties between its members after the European Union. Since January 2017, a new phase of integration into the EAEU has begun — the creation of common markets.

If the EU has a common market of 448 million people, then markets for 180 million people are being formed in the EAEU. All this testifies to the prospects in foreign and mutual trade of the member states of the Union. It is especially worth highlighting the pharmaceutical market, since one of the strategic goals for the EAEU is the creation of a common market in which high-quality and safe medicines will be created, which, of course, will increase the competitive advantages of pharmaceutical products manufactured in the territory of the Union. All this will create prerequisites for the products being created to enter the international market.

The total pharmaceutical market of the EAEU countries is an insignificant segment of the global pharmaceutical market - only about 2%, where the most capacious pharmaceutical market of the EAEU member countries is the Russian segment, it accounts for about 88% of sales of pharmaceuticals, the Kazakh market accounts for 6% of sales; the Belarusian market — 4.5%; Kyrgyzstan and Armenia together — slightly more than 1.5%. At the same time, structurally, the markets of Kazakhstan, Russia and Belarus are developing in a single competitive field.

The EAEU countries (excluding export flows between the EAEU countries themselves) account for about 0.1% of global exports of medicines. The dominant exporter of the EAEU integration grouping is Russia (85.3% of the EAEU's total exports).

The largest foreign trade partners of the EAEU in the export of pharmaceutical products are primarily the countries of the near abroad (post-Soviet space). However, due to the geopolitical situation, there is a change in the country structure of the main foreign trade partners of the EAEU in the export of pharmaceutical products. A shift to Asian and African markets is predicted.

As for imports, the EAEU countries together account for 1.8% of global import flows (excluding intra-country trade between the EAEU countries). As in the case of exports, the most capacious import market among the EAEU countries is the Russian one - 80.4% of all imported pharmaceutical products are sold there.

The largest foreign trade partners of the EAEU in terms of imports are non-CIS countries. Germany is the leading importer of pharmaceuticals for the EAEU countries, and imports from this country account for almost one fifth of all pharmaceutical products imported to the EAEU countries in value terms.

It should be understood that the geographical structure of exports and imports within the national markets of the EAEU countries may differ significantly. For example, Azerbaijan and Armenia, due to regional and deeper contradictions, do not trade pharmaceuticals with each other. Whereas, in general, for the EAEU, as an integration grouping, Azerbaijan is the second largest market where pharmaceutical products are exported.

The difference in VAT rates on pharmaceuticals in the EAEU member countries deserves special attention. In Russia, the specified rate is 10%, while in Armenia and Kyrgyzstan it is 20% and 12%, respectively, **and in Kazakhstan and Belarus the VAT rate on pharmaceuticals is zero, which makes countries with no tax rates more attractive from the point of view of the pharmaceutical sales market.** In this regard, the problem of harmonization of tax rates within the EAEU is quite likely, and if reform is carried out in this area, countries where VAT rates on pharmaceuticals are high (Armenia and Kyrgyzstan) will face a loss of part of the budget revenue; **and in countries where VAT rates are zero (in particular Kazakhstan), the situation of local producers will worsen**.

Despite the restrictions and problems caused by the pandemic and the geopolitical situation, the process of forming a common market for pharmaceutical products in the EAEU has achieved noticeable results. The prerequisites have been created for increasing the production of pharmaceutical products. The formation of a system for ensuring and monitoring the quality of medicines that circulate on the Union market has also been completed. The Pharmacopoeia of the Union was adopted, which became the second active regional pharmacopoeia in the world.

It is also planned to expand production and form cooperation chains within the EAEU, apply support measures for manufacturers of medicines and pharmaceutical substances, and boost pharmaceutical clusters as points of growth in drug supply. The prospects for the pharmaceutical market of the EAEU are possible only by building a constructive dialogue between the state, pharmaceutical business, and society, in a trajectory of trust and cooperation. **Further development of the countries' markets is seen in the creation of common investment projects to increase the production of pharmaceutical products**.

However, there are a number of **problems in integration processes related to the registration of medicines and medical devices.**

For the current (2023) year, 310 applications were submitted in Kazakhstan within the framework of the EAEU requirements, of which 178 were for the compliance procedure, 76 for registration and 56 for amendments to the registration dossier. A total of 19 applications were rejected, the main reasons being violation of deadlines for the provision of documents and incomplete dossier.

According to the decision of the EEC, from July 1, 2021, registration of new drugs is carried out only according to the rules uniform in the EAEU. However, the EEC requirements allow the registration of medicines according to national rules in emergency and epidemiological cases, and the EEC decision No. 96 makes it possible to establish an additional national procedure for the circulation of medicines, valid until December 31, 2023.

In this regard, in 2022, the Ministry of Health of the Republic of Kazakhstan initiated amendments to the Code of the Republic of Kazakhstan “On the health of the people and the healthcare system” regarding the approval of the list of strategically important medicines for state registration according to national rules. These national rules provide for accelerated registration within 70 calendar days, as well as within 90 calendar days in the case of registration of drugs that have been prequalified by WHO.

It should be noted that the registration process for innovative drugs registered in the European Union (EU) or approved by the FDA (Food and Drug Administration of the US Department of Health and Human Services) takes up to 5 years. While the procedure for recognizing the registration of such drugs within the framework of the integration legislation of the EAEU countries could significantly speed up the admission of innovations to the market of the Eurasian space.

According to the Unified Register of Registered Medicines of the Eurasian Economic Union, as of June 1, 2020, 59 medicines were registered under the rules of the EAEU, which is less than 1% of the total number of medicines circulating on the single market. It is believed that the total number of medicines in the EAEU is 8 thousand items.

It should be noted that, according to a number of authors, the prospects for the development of the EAEU will be determined by the level of development of trade and economic relations between its participants, as well as the dynamics of relations with the main foreign economic and foreign policy partners. In this context, three scenarios for the further development of integration processes within the EAEU can be distinguished.

The first scenario assumes the successful development of integration within the EAEU. To do this, the participating countries must overcome internal differences, strengthen coordination of foreign economic activities and move on to implementing joint steps in foreign policy. The scenario assumes that the countries that are members of the EAEU will be able to withstand pressure from the US, EU and China. At the same time, the development of the situation in accordance with this scenario will lead to a sharp strengthening of Russia’s foreign policy positions.

**Within the framework of the EAEU, Kazakhstan and Kyrgyzstan have the opportunity to intensify mutual relations and implement regional transport projects.**

The second scenario can be called moderately optimistic. The current development of the EAEU is taking place in the context of sanctions imposed on the Russian Federation, falling oil prices, which affects the filling of the budgets of Russia and Kazakhstan, as well as the sharp activation of China in the countries of Central Asia. The continuation of these trends allows us to expect a lack of qualitative improvement in relations between the member countries of the EAEU and, accordingly, **Eurasian integration risks turning into a sluggish process.**

The third, negative scenario assumes that the EAEU member countries will not be able to cope with the contradictions that exist between them and find effective mechanisms to counter external pressure. In these conditions, the EAEU may suffer the fate of other integration projects that the countries of the post-Soviet space have been trying to implement for 25 years.

An analysis of the national economic development programs of the EAEU member states showed **certain contradictions between national economic objectives and the objectives of the Eurasian Economic Union.** At the same time, countries do not have a focus on forming a common internal market within the Union, taking into account the specialization of countries in certain types of products. There is insufficient involvement of member states in cooperative supplies, which is due to the minimal awareness of business entities about the needs and production capabilities of industrial producers from partner countries in the EAEU.

# **System of state material reserve**

One of the mobilization preparation measures is to ensure the efficient and trouble-free operation of the state material reserve system.

An analysis of international experience shows that the institution of state material reserve is widely in demand as a tool for overcoming various resource limitations in the event of aggravation of the military-political situation, in the event of natural and man-made disasters, and unfavorable changes in the economic situation. Such insurance is becoming especially relevant at the present time, when globalization and the rapid development of technology act as factors in the growth of the variety and intensity of risks.

There are two main approaches to creating reserves in the world - reservations directly by the state (state reserves) and imposing reserve obligations on private companies (commercial reserves).

State reserves exist in most countries, including all CIS countries, the USA, China, South Korea, Germany, Italy, Switzerland, etc. The state reservation model is able to respond quickly to changes in the situation, makes it possible to quickly use large volumes of goods, provides full control over their availability and condition, and avoids interference in the activities of private companies. State reserves can be used in cases where attracting businesses is difficult due to their commercial disinterest: for example, to protect the population from price spikes and support unprofitable but strategically important sectors of the economy.

The attractiveness of commercial reserves is that they do not require budgetary expenses. However, commercial reserves may entail limited control over the fulfillment of reserve requirements by the state and the risk of unreliable information about the volume and quality of reserves, as well as direct interference in the economic activities of companies. To solve this problem, in a number of countries, reserves created at the expense of private companies are transferred under the management of specially created operating organizations accountable to the state. The commercial reserve model exists in a number of countries, such as France, Japan and, as a rule, is used to stabilize the situation in the markets and ensure the smooth operation of industries, but mainly they function as a supplement to government reserves.

One of the main tasks when operating the state material reserve is its timely refreshment. In Germany, to refresh the federal state material reserve, an online auction is being held for buyers from Germany and neighboring countries.

In the practice of the CIS member states, storage in secure storage points with the possibility of self-refreshment is widely used. Thus, Russian legislation stipulates that the refreshment of the state reserve held by the responsible custodians and the replacement of material assets of the state reserve are carried out by the responsible custodians independently, without attracting additional budgetary funds. Moreover, for certain types of material assets of the state reserve, a different procedure for refreshing stocks and replacing material assets of the state reserve may be established.

The foreign practice of managing the mobilization reserve deserves attention. The legislation in the field of the state reserve of Belarus, Azerbaijan, and Tajikistan provides that the formation and accumulation of material assets of the mobilization reserve is carried out by sectoral state bodies. The transfer of functions for the formation of material assets of the mobilization reserve to state bodies with mobilization tasks will help to raise the proportion of material assets of the mobilization reserve provided for by the Nomenclature of the mobilization reserve, i.e. to create a sufficient amount of material assets of the mobilization reserve to meet the needs of the Armed Forces, other troops and military formations during mobilization, martial law and in wartime.

In Spain, the country's ministries and departments monitor on a daily basis the movement and availability of basic goods and materials, including food products, which are located in retail stores, various industries, etc. If necessary, the government can gain control over these materials and goods. Temporary use of funds (transport, buildings, etc.) is provided for in the Law of the Republic of Kazakhstan “On Civil Protection in Case of Emergency Situations or Disasters.”

In Kazakhstan, **the functions of forming, storing and refreshing the material assets of the mobilization reserve of the healthcare system were transferred to the authorized body in the field of healthcare and the Unified Distributor**, as a result of which appropriate changes and additions were made to a number of regulatory legal acts, namely:

1) Code of the Republic of Kazakhstan “On the health of the people and the healthcare system”;

2) Code of the Republic of Kazakhstan “Budget Code of the Republic of Kazakhstan”;

3) Law of the Republic of Kazakhstan “On State Secrets”;

4) Law of the Republic of Kazakhstan “On mobilization preparation and mobilization”;

5) Law of the Republic of Kazakhstan “On Civil Protection”;

6) Decree of the Government of the Republic of Kazakhstan dated July 31, 2014 No. 860 “On approval of the Rules for operating material assets of the state material reserve”;

7) Decree of the Government of the Republic of Kazakhstan dated July 31, 2014 No. 859 “On approval of the Rules for write-off, destruction, recycling of material assets of the state material reserve and sale of recycled goods”;

8) Decree of the Government of the Republic of Kazakhstan dated March 4, 2015 No. 108 “On approval of the Rules for accounting for material assets of the state material reserve”;

9) Order of the Minister of National Economy of the Republic of Kazakhstan dated November 30, 2015 No. 747 “On approval of the form and Rules for issuing orders for the release of material assets or the sale of recycled goods from the state material reserve.”

**Empowering the Unified Distributor with the functions of operating the mobilization reserve implies the following possibilities:**

1. reducing the costs of storing and transporting medicines and medical devices by maintaining continuous improvement of processes, reducing costs and centralizing the functions of the logistics network (IT, transportation);
2. providing a wide range of logistics services, ensuring security and optimizing the movement of goods through their consolidation and the possibility of business development;
3. expanding the availability of drugs and medical devices through the optimal use of warehouse space and the proximity of warehouses to medical organizations, as well as reducing the risk of delays in drug supply;
4. expanding the list of medicines and medical products purchased by the Unified Distributor by including in it the range of medicines and medical products for the needs of military formations, law enforcement and penal systems;
5. ensuring reliable quality of medicines and medical devices through compliance with GDP standards.

# **2.7. Warehouse and transportation logistics.**

The economic development of Kazakhstan in the second half of 2022 is determined by the recovery trends from the shock caused by the pandemic and political instability.

In 2022, we observed growth in the republic’s GDP at the level of 3.1%, which was ensured by the real sector of the economy, including the construction sector - +8.6%, communications - +6.5%, trade - +6.2%, transport and warehousing - +5.6%.

Of course, 2021 has become a year of opportunities for the Republic of Kazakhstan, primarily in the transport sector. Transport flows from Asia to Europe in 2022 were largely restructured and Kazakhstan received the opportunity to seize the initiative in this direction.

Given the limited transport links of Kazakhstan, it is not surprising that its largest trading partners in goods with a lower value-to-weight ratio are located in geographical proximity, in particular in Central Asia. In recent years, Kazakhstan has been actively exploring ways to diversify its trade routes, one example of which is the development of the Trans-Caspian International Transport Route. The importance of diversifying international trade routes is increasing due to the significant volume of Kazakhstan's trade passing through Russia and the risk of secondary sanctions.

Firstly, due to geopolitical tensions in Eastern Europe, the relevance of using the Trans-Caspian International Transport Route has increased. And we see an explosive growth in foreign trade — +34.4% compared to the level of the previous year. Exports in 2022 increased by 39.9% to 84.4 billion USD, while imports increased by 21.4% to 50 billion USD.

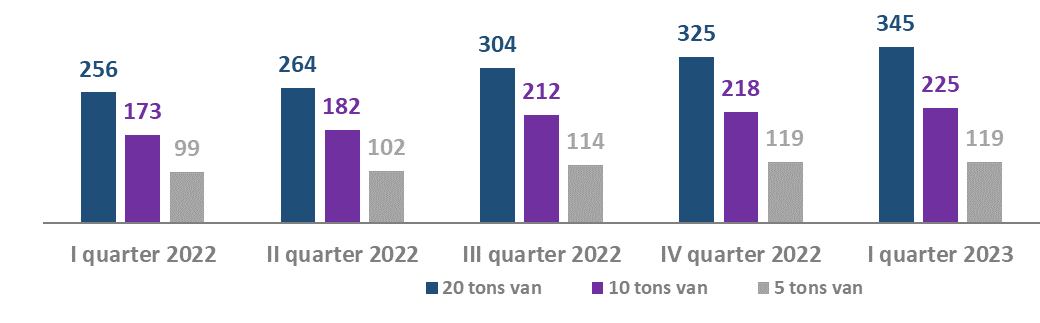
At the same time, Kazakh business successfully took advantage of the sanctions of Western countries against Russia: in January-October 2022, trading companies from Kazakhstan exported more than USD 575 million of electronics and telephones to Russia.

The product range of imports is wider compared to exports. The commodity structure of imports is dominated by products of the processing industry. Most imported were machinery and equipment, chemical products, and food products.

Secondly, there is active growth in the e-commerce market. The e-commerce market is growing as a result of changing consumer preferences towards online shopping, and this trend has not weakened since the pandemic subsided.

Thirdly, this is the continuation of the digitalization of the industry. Cloud systems and integrations with information services have allowed logistics companies to move all their work processes online, as well as speed up administrative procedures, including customs clearance.

Prices for cargo transportation in Kazakhstan in 2022 have shown an increase.



**Source: ASER based on Della’s data**

**Figure. Dynamics of tariffs for cargo transportation by road for 2022, tenge per km.**

Thus, the prices of transportation by road increased by 20-35% on average. Prices for the transportation of a 20-ton van in 2022 increased by 34.7% and by the 1st quarter of 2023 reached 345 tenge per km. Prices for the transportation of goods by 10 and 5 ton vans increased by 30.1% and 20.2% over the same period, respectively.

Last year was also marked by an increased increase in prices for storage services and transport support services.

**Figure. Price index for storage services and transport support services, as a percentage of the corresponding periods 2020-2022.**

Compared to the relatively stable 2020-2021. On average, prices for these types of services in 2022 increased by 3.5-6.1%.

The warehouse logistics market in Kazakhstan has demonstrated dynamic growth over the past five years, both in terms of the volume of new warehouse facilities introduced and in the growth of demand. The total supply of warehouse space on the Kazakhstan market in 2022 amounted to 4.98 million sq. m, of which 1.31 million sq. m are high-class warehouses.

At the same time, the demand for warehouse space in some regions currently significantly exceeds supply. This leads to an increase in prices in the warehouse services market.

Thus, in 2022, there was extremely high demand for class A warehouses, especially from companies selling pharmaceutical products, food products and household appliances. Therefore, in 2023, about 40 thousand sq. m of new warehouse space is expected to be commissioned in Almaty and the Almaty region alone.

The growing demand for logistics services and the limited availability of high-class warehouse space (there are practically no available spaces of class B and higher for rent) do not allow us to count on a reduction in prices in the short term. Demand is largely driven by companies that are leaving the Russian Federation market and moving or expanding their business in Kazakhstan.

**All of the above issues also affected the unified distribution system.**

Considering that SK-Pharmaceuticals LLP**, not having its own warehouse facilities and transport, purchases this service on the private market**. It should be noted that the structure of the warehouse transport logistics of the Unified Distributor is designed in such a way that 4 distribution centers (HUBS) in Astana, Almaty, Shymkent and Aktobe provide their service region (4 service regions in total) through transit operational warehouses. HUBs are focused on storing a two-month supply of medicines and medical products for prompt movement to all 17 regions.

In recent years, a Unified Distributor has repeatedly **faced the problem of potential suppliers refusing to participate in the procurement of services for the storage and transportation of medicines and medical devices**. Thus, during the period 2021 and 2022, the Unified Distributor repeatedly announced tenders for the purchase of services for the storage and transportation of medicines and medical products for two lots “Atyrau Region” and “Mangistau Region”, competitions for which did not take place due to the lack of proposals from potential suppliers. In this regard, in accordance with the current legal regulations, in the event that the purchase of services through operational warehouses is recognized as failed, the distribution center provides services for the storage and transportation of goods in such administrative-territorial units (regions) of the service region or the entire service region, in connection with than, increased:

- flights in the first category;

- loading and unloading operations;

- distance (increase in kilometers);

- the load on the hub for the storage and transportation of medicines and medical products has increased (storage of drugs, medical devices intended for Atyrau and Mangistau regions).

In this regard, based on the results of the purchase of services for the storage and transportation of medicines and medical devices **for 2022, the logistics costs of SK-Pharmaceuticals LLP increased by 12.5% of the planned indicators**.

It should be noted that at the moment there is an active growth in investment in the transport and logistics industry. Investments in fixed capital in the Transport and Warehousing sector in 2022 amounted to 1.585 trillion tenge, an increase of 5.4% compared to 2021 (56% of the total investment was made from the enterprises’ own funds).

It is expected that modern trade and logistics hubs will emerge near borders in key directions of trade flows. In 2024, it is planned to put into operation the Khorgos Knot border complex on the border with China; in 2025, the Eurasia cross-border trade center will be launched on the border with the Russian Federation. By 2026, 3 facilities will open at once: the “Industrial Trade and Logistics Complex” on the border with Kyrgyzstan, the container hub “Caspian Knot” and the international center for industrial cooperation “Central Asia” on the border with the Republic of Uzbekistan.

Today the state pays great attention to the development of all types of transport and logistics. Thus, the Decree of the Government of the Republic of Kazakhstan dated December 30, 2022 No. 1116 approved the Concept for the development of transport and logistics potential of the Republic of Kazakhstan until 2030, which provides for the development of all sectors of transport and logistics. Thus, the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan will take measures for its timely implementation. These measures are expected to ensure accessible, safe and inclusive mobility, as well as strengthen the country's competitiveness and become a transit hub.

# **ANALYSIS OF THE INTERNAL ENVIRONMENT**

# **Results of the main activity**

As a result of the work of the Unified Distributor, for the period from 2009 to the present, medicines and medical products worth more than 2.3 trillion tenge or $7.2 billion were centrally purchased.

Since the creation of the Unified Distributor, the total savings of funds allocated for drug provision within the GVFMC amounted to 214.4 billion tenge. There is a trend of increasing cost savings, so compared to 2010, in the first half of 2023, the amount of savings in absolute terms increased by 3.7 times.

**Figure. Dynamics of unit purchases for 2010 - the first half of 2023 (in billion tenge) according to the list of the Unified Distributor**

For the period from 2010 to the first half of 2023, there has been a decrease in the share of purchases from local commercial distributors, an increase in the share of purchases under direct contracts (including through international organizations (UNICEF, UNDP, STOP-TB)) and from domestic manufacturers.

The Unified Distributor has been conducting centralized procurement of the entire outpatient list since January 1, 2018. Centralized procurement of the entire outpatient list at the level of the Unified Distributor allowed saving the country’s budget in 2018 in the amount of 23.4 billion tenge.

Every year, the state increases funding for outpatient drug provision, and the coverage of nosologies and the population increases.

From January 1, 2020, the CSHI system was introduced in Kazakhstan, which made it possible to cover an additional 105 nosologies.

Thus, a 3-fold increase in the coverage of nosologies within the GVFMC and CSHI was achieved from 45 to 131 nosologies.

Drug provision within the framework of outpatient drug provision is carried out in accordance with the List of medicines and medical products for free and (or) preferential outpatient provision of certain categories of citizens of the Republic of Kazakhstan with certain diseases (conditions), approved by order of the Minister of Health of the Republic of Kazakhstan dated August 5, 2021 No. KR DSM – 75.

Expenses for the treatment of the TOP 10 nosologies amount to 70.98 billion tenge, or 74% of the total expenditure on drug provision within the allocated budget funds for outpatient drug provision.

**Table. TOP 10 nosologies by amount of expenses**

| **№** | **Line titles** | **Sign of GVFMC/ CSHI** | **first half of 2022, in million tenge.** | **first half of 2023, in million tenge.** | **Growth by the first half of 2022** | **Share** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | Diabetes mellitus | GVFMC/ CSHI | 17 007,53 | 19 190,22 | 13% | 20% |
| 2 | Oncological diseases | GVFMC/ CSHI | 11 709,62 | 13 288,25 | 13% | 14% |
| 3 | Malignant neoplasms | GVFMC/ CSHI | 7 554,08 | 8 943,45 | 18% | 9% |
| 4 | Arterial hypertension | GVFMC/ CSHI | 6 378,18 | 7 109,91 | 11% | 7% |
| 5 | Hereditary deficiencies of blood clotting factors | GVFMC | 6 122,32 | 7 043,54 | 15% | 7% |
| 6 | Rheumatoid arthritis. | GVFMC/ CSHI | 3 547,53 | 4 069,88 | 15% | 4% |
| 7 | Mucopolysaccharidosis | GVFMC | 4 401,97 | 3 826,65 | -13% | 4% |
| 8 | Spinal muscular atrophy | GVFMC | - | 2 798,04 |  | 3% |
| 9 | Mental illness | GVFMC/ CSHI | 2 701,78 | 2 529,62 | -6% | 3% |
| 10 | Duchenne muscular dystrophy | GVFMC | 1883,45 | 2 175,44 | 16% | 2% |
|  | **ТОП-10** |  |  | **70 975,01** |  | **74%** |
|  | **Всего** |  |  | **96 206,90** |  |  |

At the same time, the TOP 10 nosologies in terms of the number of patients differs from the TOP 10 nosologies in terms of the amount of expenses and amounts to 88% of all patients provided with free medicines as part of outpatient drug provision.

**Table. TOP 10 nosologies by number of patients \***

| **№** | **Nosology** | **Sign of GVFMC/ CSHI** | **Number of patients covered in the first half of 2022** | **Number of patients covered in the first half of 2023** | **Growth by 2022** | **Share** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | Arterial hypertension | GVFMC / CSHI | 1 148 821 | 1 026 525 | -11% | 40% |
| 2 | Coronary heart disease (CHD) | GVFMC / CSHI | 440 200 | 400 441 | -9% | 16% |
| 3 | Diabetes mellitus | GVFMC / CSHI | 425 193 | 377 736 | -11% | 15% |
| 4 | Acute respiratory infections of the lower respiratory tract | CSHI | 122 921 | 97 499 | -21% | 4% |
| 5 | Hypothyroidism/ Hyperthyroidism/ Hypoparathyroidism | GVFMC / CSHI | 99 553 | 88 261 | -11% | 3% |
| 6 | Chronic heart failure | GVFMC / CSHI | 72 910 | 71 638 | -2% | 3% |
| 7 | Bronchial asthma | GVFMC / CSHI | 72 058 | 66 277 | -8% | 3% |
| 8 | Chronic obstructive pulmonary disease | GVFMC / CSHI | 60 828 | 53 559 | -12% | 2% |
| 9 | Epilepsy | GVFMC / CSHI | 56 142 | 51 930 | -8% | 2% |
| 10 | Mental illness | GVFMC / CSHI | 46 215 | 42 555 | -8% | 2% |
|  | TOP - 10 | | | 2 276 421 |  | 88% |
|  | TOTAL | | | 2 576 327 |  |  |
| *\* - the number of unique patients was calculated taking into account the type of payment (GVFMC/CSHI), region of the Republic of Kazakhstan and nosology..* | | | | | | |

Thus, in the first half of 2023, more than 8.35 million prescriptions were written for 2.58 million patients worth more than 96.2 billion tenge, which indicates **that on average about 46 thousand prescriptions are written and dispensed daily**.

In the first half of 2023, more than 2 million 576 thousand people were covered by free medicines, 540.6 thousand of them within the framework of the implemented CSHI system.

One of the tasks set for SK-Pharmaceuticals LLP is to support domestic developments and the development of a competitive pharmaceutical industry. At the end of the first half of 2023, the share of the ten largest manufacturers amounted to 41% of the total purchases of SK-Pharmaceuticals LLP, where the leader was DP Nobel JSC, ahead of two Sanofis and DP Khimpharm JSC.

According to paragraph 4 of Article 248 of the Code of the Republic of Kazakhstan “On the health of the people and the healthcare system,” one of the principles of purchasing medicines and medical products is to support domestic producers. To implement this principle, Rules No. 110 provide for Chapter 2 of Section 1 to support domestic pharmaceutical production for the purchase of their products in the Unified Distributor system.

In the procurement of medicines and medical devices, domestic manufacturers are granted privileges in tender procedures, when, with the participation of a domestic manufacturer in the tender, applications from other suppliers are not considered. Rules No. 110 provide for the possibility of concluding long-term contracts for the supply of domestic products for a period of 10 years. This fact gives domestic enterprises a powerful incentive and a solid platform for the development of their own pharmaceutical production.

Supporting domestic producers and entrepreneurial initiatives is one of the main activities of the Unified Distributor.

In the period from 2009 to the first half of 2023, there has been a systematic increase in the share of Kazakhstani drugs in the purchase of the Unified Distributor. Most domestic drugs are purchased through long-term contracts with DP for 10 years.

If in 2010 the share of domestic producers in monetary terms was 15% (in the amount of 4.8 billion tenge), then according to the results of the first half of 2023, the share of purchases in monetary terms increased 2.3 times, amounting to 35% (in the amount of 103. 89 billion tenge).

**Figure. Dynamics of purchases by a Unified Distributor from a domestic manufacturer for the period 2010 - the first half of 2023**

**Figure. Dynamics of purchases by the Unified Distributor from domestic producers under long-term agreements for 2020 – 1st half of 2023.**

Of the drugs and medical devices purchased from DP in 2023, 78% (80.99 billion tenge) were purchased through long-term contracts.

**Figure. Coverage of domestic commodity producers of items in the context of Anatomical, Therapeutic and Chemical groups**

An analysis of the coverage of domestic commodity producers in the context of Anatomical-Therapeutic-Chemical Groups (including MI) for the first half of 2023 (shipment fact + provision of outpatient drug supplies) showed the following:

More than 50% of domestic goods producers are covered in 5 groups:

- medical products: 598 items out of 613 produced in Kazakhstan;

- drugs affecting the cardiovascular system: 49 items out of 82 produced in Kazakhstan;

- drugs affecting the sensory organs: 5 items out of 9 produced in Kazakhstan;

- drugs affecting the musculoskeletal system: 19 items out of 38 produced in Kazakhstan;

- dermatological products: 8 items out of 16 produced in Kazakhstan.

in 12 out of 15 groups, domestic producers produce more than 30% of the drug names purchased according to the list of a Unified Distributor.

Thus, in order to implement the instructions of the President of the Republic of Kazakhstan and the Government of the Republic of Kazakhstan to qualitatively achieve coverage of 50% of domestic producers, it is necessary to consider the issue of localizing drugs from 3 groups with the share of names of drugs of domestic producers less than 30%.

The current situation in pharmaceutical production in the country cannot be considered sufficient: its volumes provide only 24% of the country’s need for medicines and medical products.

At the same time, the Republic of Kazakhstan remains import-dependent both in terms of technologies and components for the production of medicines, as well as a wide range of pharmaceuticals and substances.

Today, there are 95 long-term contracts concluded with 35 domestic manufacturers for the supply of 640 types of medicines and 3,768 medical products, of which 44 long-term contracts were concluded for drugs and 51 long-term contracts for medical devices.

The domestic product portfolio under long-term contracts consists of 59.37% of drugs in tablet form, injection forms of release make up only 38.75%.

The range of medical devices under long-term contracts consists of 60.99% medical devices intended for endoprosthetics. Medical products used in diagnostics account for only 25.18%.

The current portfolio of domestic producers under long-term contracts is formed not from the real needs of healthcare, but from the proposals of potential suppliers.

# **Centralization of the procurement of medical equipment at the level of the Unified Distributor**

In accordance with the instruction of the President of the Republic of Kazakhstan Kassym-Jomart Tokaev, given at the expanded meeting of the Government of the Republic of Kazakhstan dated February 8, 2022, the Ministry of Health of the Republic of Kazakhstan is currently actively working with SK-Pharmaceuticals LLP to centralize the purchase of medical equipment based on a Unified Distributor worth over The centralized purchase of medical equipment on the basis of SK-Pharmaceuticals LLP is planned to be carried out in two stages.

Stage I – 2022 – centralization of the purchase of medical equipment (pilot project);

Stage II – from 2023 – conclusion of long-term contracts on the terms of localization/contract manufacturing, life cycle contracts for medical equipment.

As part of the centralized purchase of medical equipment on the basis of SK-Pharmaceuticals LLP, 27 tenders for 559 units of medical equipment worth 67.5 billion tenge were announced in 2023.

According to the results of the purchase for 2023, a Unified Distributor purchased 525 units of medical equipment: the allocated amount for the purchase of medical equipment amounted to 63.9 billion tenge, according to the results of the auction, the purchase amount amounted to 59.6 million tenge, while savings amounted to 4.3 billion tenge – 6.8% of them within the framework of negotiations on price reduction – 41.4 billion tenge.

The purchase of medical equipment did not take place for 34 units for the allocated amount of 3.5 billion tenge, of which:

- 1 piece of medical equipment was withdrawn from the tender (the supplier provided it free of charge);

- The purchase of 33 units of medical equipment did not take place due to the lack of a competitive environment and late deadlines for submitting customer applications.

As of December 2023, 37 units of medical equipment were supplied to: Astana, Karaganda region, Almaty region, Abai region, Atyrau region, Kostanai region, Zhetisu region, JSC National Center for Neurosurgery.

# **Reboot Program of the Unified Distributor**

The development strategy of the Unified Distributor is aimed at ensuring the availability and timeliness of drug supply within the framework of GVFMC and CSHI, ensuring the full industry cycle of the unified distribution system and developing the potential of business opportunities of SK-Pharmaceuticals LLP, as well as developing the human resources of SK-Pharmaceuticals LLP and achieving financial sustainability.

However, the unified distribution system, configured for planned drug provision within the GVFMC and CSHI, turned out to be not ready to quickly respond to sudden changes in demand and timing of drug provision.

In this regard, in order to dynamically accelerate the tools for achieving strategic goals and demonstrating operational flexibility, within the framework of the SK-Pharmacy Reboot program, which started on August 18, 2020, when by order of the Chairman of the Board, project groups were created to improve the priority areas of development of the Unified Distributor. As part of this initiative, the Unified Distributor carried out work in the following areas:

# **3.3.1 Improving procurement procedures**

In order to ensure transparency of procurement procedures, mitigation of corruption risks, optimization of labor costs, reduction of paperwork, elimination of human errors and transparent reporting, the Unified Distributor initiated a number of projects.

Work has been carried out to transfer the Competition for the conclusion of long-term supply contracts among Domestic commodity producers who intend to create and (or) modernize the production of medicines and (or) medical products from paper format to electronic, through a web portal (fms.ecc.kz).

Agreements on public procurement of services were concluded with JSC "Center for Electronic Finance" to modify the "Procurement" modules in terms of finalizing the method of purchasing medicines and medical products using the "From a Single Source" method under long-term supply contracts with Domestic manufacturers and reducing the amount of documentation provided by potential suppliers . As part of these works, the “Agreements” module was also modified in terms of creating the possibility of concluding additional agreements for each financial year to long-term contracts.

In accordance with the instructions of the Head of State, given at an extended meeting of the Government on February 8, 2022, the vector has been set for **the transition to centralized procurement of medical equipment on the basis of SK-Pharmaceuticals LLP**.

As part of the execution of this order, the Unified Distributor made appropriate changes to the regulatory legal acts, and also automated the process of purchasing medical equipment by creating a special module in EFIS and integrating with the procurement web portal of JSC "Center for Electronic Finance" of the Ministry of Finance of the Republic of Kazakhstan (hereinafter - JSC "CEF") .

In order to ensure equal access for patients in the regions of the Republic of Kazakhstan to high-quality equipment with medical equipment, the Unified Distributor proposed the formation of a program for equipping medical equipment for 5 years in accordance with the minimum standards for equipping healthcare organizations, taking into account planned write-offs in accordance with depreciation standards for fixed assets.

Currently, this equipment program has been approved by the Ministry of Health of the Republic of Kazakhstan and included in the draft Decree of the Government of the Republic of Kazakhstan (located in the draft open legal acts) “On approval of the Concept for the development of healthcare infrastructure for 2024 – 2030.”

Moreover, in order to effectively manage the accounting system and manage the fleet of medical equipment, refinement of the functionality of the IS “Medical Equipment Management System” (hereinafter referred to as the MEMS) was initiated in terms of service support for medical equipment.

Also, the Unified Distributor initiated the introduction of a leasing financing program for the purchase of domestically produced medical equipment in order to support domestic manufacturers and create an alternative mechanism for equipping medical organizations, allowing to significantly optimize budget costs and reduce downtime of equipment due to its malfunction.

In order to resolve the issues of updating the material and technical equipment of healthcare organizations, SK-Pharmaceuticals LLP proposed to introduce long-term rental of medical equipment, which will allow healthcare organizations to reduce financial risks, in addition, it will ensure savings in funds spent on equipping with medical equipment, and will allow them to provide a full range of services.

# **3.3.2. Support for domestic producers and entrepreneurial initiatives and development of the Big Pharma program**

Work has been carried out to introduce amendments and additions to regulatory legal acts in the field of medicines circulation:

- the evaluation criteria for the application of potential suppliers who intend to create and (or) modernize the production of medicines and medical devices have been revised, where criteria for the availability of export operations, the development of R&D in cooperation with research institutes, cooperation with universities within the framework of building the human and scientific potential of the pharmaceutical industry have been added;

- the mechanism for concluding long-term contracts with contract manufacturing customers has been improved, taking into account requests from BigPharma;

- measures have been developed to promote an increase in the level of localization of production in Kazakhstan and the creation of an added value chain in the pharmaceutical industry.

The Unified Distributor initiated a number of projects as part of the implementation of the order of the President of the Republic of Kazakhstan Kassym-Jomart Tokayev, given in the Address to the people of Kazakhstan dated September 1, 2021, in terms of expanding the volume and range of off-take contracts with domestic manufacturers, as well as increasing the share of medicines and medical domestically produced products from existing 17 to 50%.

**In order to ensure technology transfer to the Republic of Kazakhstan, ensure patient access to innovative medicines and treatment methods, as well as build up the country’s human and scientific potential,** the Unified Distributor is working with a number of BigPharma companies on projects for the production of innovative drugs with further export to the countries of the EAEU and Central Asia . A number of changes and additions were made to the relevant regulatory legal acts in terms of improving the mechanism for localizing innovative drugs on the territory of our country.

Based on the results of this work, to date, the Ministry of Health of the Republic of Kazakhstan has already concluded framework agreements on cooperation with such global pharmaceutical companies as F. Hoffmann-La Roche Ltd., Novo Nordisk and AstraZeneca UK LTD, Bayer KAZ LLP, Johnson & Johnson LLC, JSC "Khimpharm" and JSC "Biocad".

As part of the visit of the Head of State to the United States, following the results of the development of a Unified Distributor, an agreement was signed between Pfizer and Kazakhinvest on the localization of production in Kazakhstan of a vaccine to protect children and adults from pneumococcal infection.

The subject of all concluded memoranda is, first of all, **the localization of innovative molecules in Kazakhstan, the development of scientific, medical and educational projects, as well as the conduct of multicenter clinical trials.**

On November 17, 2023, the implementation of the first initiatives began - at the site of the Kazakhstan Global Investment Roundtable, the Unified Distributor signed **the first long-term contracts with customers of contract production of original patented medicines with the American transnational company Pfizer Export B.V. and Swiss pharmaceutical giant Roche Holding.**

Currently, geopolitics has caused the outflow of **a number of clinical trials** from the markets of Russia and Ukraine. We adhere to a clear position on the redeployment of some of them to our country, **and therefore work is being carried out to reduce regulatory barriers to the development of this area**.

And today **Kazakhstan is included in the largest clinical trial conducted by the German company Bayer in 16 countries**.

To successfully implement the goals set by the Head of State, there is a need **to create a favorable infrastructure for the development of the domestic pharmaceutical industry, and therefore the Unified Distributor initiated the creation of medical and pharmaceutical clusters in the country**.

The Unified Distributor, with the assistance of the Institute for the Development of the Healthcare Industry of South Korea, held a round table with large Korean pharmaceutical clusters on cooperation in the framework of the creation and development of medical and pharmaceutical clusters between Kazakhstan and South Korea.

From June 27-30, 2022, the Kazakh delegation, consisting of SK-Pharmaceuticals LLP, subordinate organizations of the Ministry of Health of the Republic of Kazakhstan and business representatives, visited South Korea on a working visit to develop projects and study the work of South Korean medical and pharmaceutical clusters and the production of medical equipment.

During the visit, the Kazakh delegation visited the large Korean medical and pharmaceutical clusters of Songdo and Wonju Techno Valley. Based on the results of this work, the corresponding order of the Ministry of Health of the Republic of Kazakhstan has already entered into force and work is **now underway to implement the cluster initiative in the cities of Astana, Aktobe and Shymkent**.

As international practice shows, a great incentive for the development of pharmaceutical clusters will be **the attraction of domestic research institutes, scientific laboratories of large medical universities like R&D centers, as well as their deployment in free economic and industrial zones**. And today, as part of the establishment of a medical and pharmaceutical cluster in Shymkent, a modern **R&D center** is being created on the basis of the domestic manufacturer Khimpharm JSC.

Thus, today the industry faces the following problems:

* more than 85% of the names of medicines and medical devices under long-term contracts are concluded with medical devices;
* only 29 long-term contracts out of 95 long-term contracts were implemented;
* lack of interaction between the scientific community of Kazakhstan and manufacturers;
* low level of research and educational potential in the field of pharmaceuticals, as well as the residual principle of their financing;
* lack of production of substances and original drugs;
* the portfolio of domestic producers is represented by low-profit generic drugs.

**In this regard, SK-Pharmaceuticals LLP proposed a number of measures to improve state policy on long-term contracts, namely:**

* **audit and diagnostics of the current portfolio of long-term contracts:** *Analysis of all positions occupied under long-term contracts by the National Scientific Research Center for Healthcare to determine the coverage of domestic producers' needs for clinical protocols.*
* **forecast for the development of the pharmaceutical market:** *Development of a strategy for the development of the pharmaceutical market in Kazakhstan based on 10-year forecasts for the consumption of drugs and medical devices.*
* **changing approaches to the formation of the nomenclature of drugs, medical products:** *Development and approval of the nomenclature of medicines and medical devices for concluding long-term contracts with domestic producers at the level of the National Research Center for Healthcare, taking into account the medium-term forecast of morbidity in the Republic of Kazakhstan and the consumption of medicines and medical products.*
* **quality and safety of drugs, medical products produced in Kazakhstan:** *Activation of the work of the pharmaceutical inspectorate, strengthening the responsibility of domestic producers for the safety of supplied drugs, medical products, reloading the “ST-KZ Certificate” tool.*
* **development of biotechnologies on the territory of Kazakhstan:** *Formation of state policy for the development of the pharmaceutical industry, aimed at developing the production of high-tech, expensive drugs.*

**The implementation of the proposed measures will contribute to an increase in the level of localization of production in Kazakhstan, the creation of a value chain in the pharmaceutical industry, will ensure an increase in the quality of domestic products, expansion of their range, taking into account technology transfer and the latest developments, and achieving the target indicator of up to 50% of the share of DP’s.**

# **3.3.3. The international cooperation**

To develop joint approaches and decisions on the development of the pharmaceutical industry, the International Pharmaceutical Forum “Global Pharm” and “MedTech” are held annually in Astana starting from 2021, which are a dialogue platform for representatives of the industry and all involved companies and institutions.

Within the framework of the Forums, the Unified Distributor organizes round tables with representatives of the Government of the Republic of Kazakhstan and G2B meetings with the Ministry of Health of the Republic of Kazakhstan and its subordinate organizations. The forums are held in a hybrid format, with delegates from more than 20 countries registering to participate over the course of three years, the number of registered offline participants reaches 200 people, and online up to 5,000 views.

Also, the Unified Distributor regularly conducts meetings and business trips with industry representatives, diplomatic missions and regulatory authorities of foreign countries. Thus, during the period of work, successful collaborations were established with the Embassies of the European Union countries, China, South Korea, France, the UAE, India, the Islamic Republic of Iran, etc.

# **3.3.4. Improvement of operational logistics**

The efficient logistics system of the Unified Distributor makes it possible to provide about 5.5 million patients with equally high-quality and in-demand drugs at an equal price.

Our logistics system is built in such a way that volumes are distributed from 4 large hubs in the cities of Astana, Almaty, Aktobe and Shymkent to operational warehouses in the regions. This made it possible to reduce the distances for transporting medicines by four times, increasing efficiency and timeliness. But, most importantly, in force majeure circumstances, any of the logistics companies can replace another, which minimizes the risks of supply disruptions.

Today, in order to increase the efficiency of logistics in terms of uninterrupted operation of each delivery link, the SK-Pharmacia logistics system has switched to a new algorithm for the delivery of medicines, which has made it possible to increase the number of scheduled flights by 1.7 times and reduce delivery times (from 2 weeks to 1 week ) and ensure the operational operation of the entire supply chain of medicines, namely: distribution of goods from the Hub to the regions, according to the Cross-docking principle; 24/7 warehouse operation is ensured; control of the “Cold Chain” from the supplier to the Moscow Region; The number of warehouse workers has been increased to speed up the acceptance of medicines and medical products. An agreement was also reached with airlines to speed up the delivery of drugs (Scat, Air Astana, Qazaq Air).

The Unified Distributor has developed a model of preliminary information for the distribution of humanitarian cargo, according to which documents on humanitarian cargo sent to the country are sent in advance. All procedures for the prompt receipt and distribution of humanitarian aid are accelerated as much as possible thanks to the interaction of all involved structures (Ministry of Health of the Republic of Kazakhstan, Ministry of Foreign Affairs of the Republic of Kazakhstan, customs service, air transport companies, airports and akimats).

This model for the distribution of humanitarian cargo is structured in such a way that from the moment it is received, almost the next day, transportation begins according to the distribution of the Ministry of Health of the Republic of Kazakhstan and subsequent shipment to medical organizations.

In order to digitalize drug supply and improve the IT infrastructure of the Unified Distributor, work is underway to consolidate balances at the level of medical organizations, improve and automate planning processes for medicines and medical devices by medical organizations, as well as fully automate procurement procedures. Currently, the Ministry of Health of the Republic of Kazakhstan is conducting a pilot project regarding centralized accounting of balances in 14 medical organizations.

In July 2021, a pilot project on digitalization of the vaccine cold chain was completed with the participation of SK-Pharmaceuticals LLP.

The process ensures effective control of the movement of vaccines to the final consumer while maintaining the cold chain. This makes it possible to track the location, ownership, and temperature conditions during transportation of each package.

Currently, the issue of creating SK-Pharmaceuticals’ own logistics infrastructure is being considered, which will ensure:

- Optimal modern infrastructure with new operating areas

- Availability of mechanisms for planning and inventory management (IT solutions)

- High speed and flexible controllability of the logistics network

- Increasing the share of direct contracts and new areas of activity (retail)

- Storage of significant reserves for material reserve and irreducible strategic reserve

- A single logistics complex/cycle with the possibility of storing and refreshing medicines and medical products of the mobilization reserve of the Republic of Kazakhstan.

**The construction of warehouses will create appropriate storage conditions for medicines and medical products in accordance with international standards, including mobilization reserves, obtain the necessary space and storage conditions, reduce logistics costs and improve the supply of medicines to the population.**

# **Financial indicators**

The Unified Distributor was created in order to increase the sustainability and competitiveness of the pharmaceutical industry of the Republic of Kazakhstan and does not have income generation as its main goal. The Ministry of Health of the Republic of Kazakhstan, as the only participant, exercises the rights of ownership and use of 100% participation shares in SK-Pharmaceuticals LLP and represents the interests of the state. At the same time, income from activities is distributed in accordance with the law, the Charter of SK-Pharmaceuticals LLP and the decisions of the Sole Participant.

SK-Pharmaceuticals LLP operates at the expense of the Unified Distributor's markup, established by the authorized body in differentiated percentages on a regressive scale.

The own funds of the Unified Distributor are formed and consist of authorized capital, profits from the sale of medicines and medical devices and other income not prohibited by the legislation of the Republic of Kazakhstan. The formed authorized capital at the expense of the republican budget is 700 million tenge.

For the period 2019-2022. there is an increase in the total income of SK-Pharmaceuticals LLP by an average of 13% and an increase in expenses by 7%, respectively. The sharp increase in indicators in 2021 is due to the purchase of medicines and medical products as part of the fight against COVID-19 (vaccines and purchases for the retail segment).

**Table. Results of financial activities (income), billion tenge**

| **Financial performance indicator** | **2019** | **2020** | **2021** | **2022** | **2023\*** |
| --- | --- | --- | --- | --- | --- |
| Income from the sale of medicines and medical devices | 203,20 | 272,0 | 438,8 | 400,9 | 301,3 |
| Financial income | 0,8 | 2,4 | 1,8 | 1,9 | 5,1 |
| Other income | 1,8 | 2,4 | 15,2 | 8,4 | 7,9 |

*Note \* - the fact of implementation of the KPI for 2023 is preliminary based on the results of November 2023. The approved results of the KPI are published based on the results of the audit reports (scheduled audit in May 2024).*

**Table. Results of financial activities (expenses), billion tenge**

| **Financial performance indicator** | **2019** | **2020** | **2021** | **2022** | **2023\*** |
| --- | --- | --- | --- | --- | --- |
| Cost of goods sold | 189,3 | 255,9 | 418,1 | 383,7 | 288,6 |
| General administrative expenses | 1,8 | 1,1 | 1,4 | 1,9 | 1,6 |
| Other costs of the main activity (transportation, exchange rate differences) | 6,3 | 7,8 | 24,4 | 15,2 | 14,1 |

*Note \* - the fact of implementation of the KPI for 2023 is preliminary based on the results of November 2023. The approved results of the KPI are published based on the results of the audit reports (scheduled audit in May 2024).*

It should be noted that the amount of receivables, taking into account debts from previous years, as of the current moment in 2023 is 37.3 billion tenge. Violations of the terms of payment of obligations of medical organizations to the Unified Distributor are regular, and against the backdrop of chronic non-payment, the Unified Distributor is faced with an increase in accounts payable from year to year, which leads to a cash gap.

**Table. Accounts receivable and payable, billion tenge**

| **Financial performance indicator** | **2019** | **2020** | **2021** | **2022** | **2023\*** |
| --- | --- | --- | --- | --- | --- |
| Accounts receivable, tenge | 17,7 | 27,4 | 31,2 | 39,8 | 37,3 |
| Accounts payable, tenge | 47,7 | 70,4 | 60,6 | 73,1 | 87,3 |

*Note \* - the fact of implementation of the KPI for 2023 is preliminary based on the results of November 2023. The approved results of the KPI are published based on the results of the audit reports (scheduled audit in May 2024).*

SK-Pharmaceuticals LLP manages temporarily free money in accordance with the Decree of the Government of the Republic of Kazakhstan dated September 14, 2004 No. 960 "On certain issues of acquisition by state-owned enterprises on the right of economic management and organizations, a controlling stake (shares) owned by the state, financial services", and the Rules for Managing Time-free Money approved by the Supervisory Board of SK-Pharmaceuticals LLP. The purpose of managing temporarily free money is to place it in financial instruments on the domestic financial market, to ensure the safety of temporarily free money in accordance with the level of profitability to the level of accepted risk, to maintain the necessary liquidity ratio of SK-Pharmaceuticals LLP.

**Table. Dynamics of remuneration on accounts in commercial banks, in million tenge**

| **Indicators/Periods** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **1 пг. 2022 г** | **1 пг. 2023 г** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Income from rewards | 4 779 | 2 439 | 1 229 | 793 | 2 373 | 1 752 | 1 902 | 1 042 | 3 590 |
| Average annual balance of temporarily free money | 33 886 | 32 612 | 18 431 | 11 925 | 29 142 | 22 486 | 17 075 | 19 405 | 46 273 |
| Average annual remuneration rate | 14,10% | 7,48% | 6,67% | 6,65% | 8,14% | 7,80% | 11,14% | 5,37% | 7,76% |

According to preliminary data for the 1st half of 2023, income in the form of remuneration amounted to 3,590.0 million tenge, in the same period last year 1,042.0 million tenge, an increase of 3.4 times. The reason for the increase in financial income is the increase in the volume of temporarily free funds placed on deposit accounts in second-tier banks.

The solvency ratio allows you to assess the organization’s ability to ensure payment of funds only due to cash inflows or due to the balance at the beginning of the year and cash inflows in the analyzed period.

**Table. Size ratio coefficient of cash flow, in tenge**

| **Period** | **PCF** | **NCF** | **Kpl1 = PCF/NCF** |
| --- | --- | --- | --- |
| 2017 | 142 626 822 716,55 | 131 855 491 278,33 | 1,08 |
| 2018 | 166 787 219 062,99 | 178 997 616 861,42 | 0,93 |
| 2019 | 197 149 160 066,07 | 181 370 453 811,16 | 1,09 |
| 2020 | 261 769 122 773,82 | 260 474 384 829,51 | 1,00 |
| 2021 | 444 027 455 944,84 | 436 072 142 463,75 | 1,02 |
| 2022 | 398 633 076 199,38 | 376 157 049 381,22 | 1,06 |
| *including the first half of 2022* | *164 297 478 578,91* | *170 900 156 576,49* | *0,96* |
| **first half of 2023** | **212 370 042 334,43** | **192 559 168 298,73** | 1,10 |

In the first half of 2023, the solvency ratio was 1.10 (the ratio of positive and negative cash flows from the sale of medicines and medical products), which is higher than the standard indicator and **reflected the ability of SK-Pharmaceuticals LLP to make its current payments from cash receipts**.

# **Formation of a communication channel**

SK-Pharmaceuticals LLP pays special attention to issues of openness and transparency. To win the trust of Kazakhstanis by ensuring openness and transparency of the activities of SK-Pharmaceuticals LLP - this is the task set for the company. The dynamic increase in the level of openness and transparency of the activities of SK-Pharmaceuticals LLP to the public is a qualitative sign of the modernization of all business processes in the company. For this purpose, awareness-raising work is being carried out in order to improve interaction with civil society on socially significant issues of drug provision.

SK-Pharmaceuticals LLP has formed a Public Working Group, which includes representatives of civil society and the business community, members of parliament and industry experts. The working group was created to improve interaction with civil society on socially significant issues of drug provision. All issues raised during the meetings of the working group are entered into the “Book of Problematic Issues” and are considered for resolution and improvement. In addition, a feedback section has been created for suggestions and requests at meetings of the public Working Group.

The official website of SK-Pharmaceuticals LLP has created a section “Public Control”, information on issues of greatest interest to the public - humanitarian assistance, procurement transparency, supply of drugs to medical organizations, reporting and feedback channels.

In addition, there is a Contact Center for drug supply issues at the short number 1439, which is available for both landline and mobile phones.

Active interaction is carried out with the public, patient organizations, and medical associations.

SK-Pharmaceuticals LLP works closely with the Anti-Corruption Service, helping to prevent corruption, and also works on its prevention on an ongoing basis. Together with the Anti-Corruption Agency, work has been organized in key areas. An anti-corruption policy and a code of business ethics have been developed, the position of a compliance officer has been introduced, and an internal analysis of corruption risks is carried out on an ongoing basis.

In order to improve interaction with the public, feedback channels have been created. This is the “Helpline” at number 1439, as well as the “Report Violations” tab on the official Internet resource and the confidential reporting channel - email senim@sk-pharmacy.kz.

A properly structured policy of maintaining official accounts of SK-Pharmaceuticals LLP on social networks and interacting with the public through them allowed us to position the company as a modern, open and transparent organization. Constant presence and prompt response to questions, requests and complaints from the population, prompt provision of detailed answers allowed us to change the perception of SK-Pharmaceuticals LLP, forming its image as an open company, ready to interact and resolve every issue.

# **Risk management and internal control**

The risk management and internal control system is used in strategic and operational management to provide sufficient confidence in achieving the strategic and operational goals of SK-Pharmaceuticals LLP.

The sustainable success of SK-Pharmaceuticals LLP is achieved through effective management of the company and the risks that are associated with the activities of SK-Pharmaceuticals LLP, through understanding the environment in which the organization operates, continuous staff training and innovation.

As part of the risk management of SK-Pharmaceuticals LLP, risk management procedures have been developed and implemented in the Risk Management Rules, approved by the decision of the Board of SK-Pharmaceuticals LLP.

In the process of carrying out its activities, SK-Pharmaceuticals LLP faces various risks that, to one degree or another, affect the achievement of planned indicators and goals, the effectiveness of decisions made and the performance of activities in general.

The risk management process in the Organization is carried out in accordance with the Risk Management Policy, which takes into account the fundamentals of generally accepted concepts and standards in the field of risk management of the International Organization for Standardization 31000:2009 “Risk Management - Principles and Guidance”, defines the structure, the main components of the risk management process, and ensures systematic and a consistent approach in implementing the risk management process at SK-Pharmaceuticals LLP.

Thus, during the period 2019-2023, seven risks were realized and raised to the Red zone of the Risk Map. The realized risks concerned mainly the processes of interaction with stakeholders, including incorrect planning by medical organizations, the operation of information systems, supply failures and delays in the coordination and/or approval of documents necessary for the implementation of the Partnership’s activities. The risk of increased staff turnover, which was raised in the red zone in 2019, has been lowered from the Red zone to the Orange zone in 2021. In addition, four risks were again identified, one of which is the risk of social tension.

**Table. Risk register for the period 2019-2023.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Risk zones** | **2019** | **2020** | **2021** | **2022** | **2023\*** |
| Risks of the green zone | 3 | 1 | 0 | 1 | 1 |
| Risks of the yellow zone | 2 | 3 | 2 | 5 | 4 |
| Risks of the orange zone | 8 | 12 | 11 | 7 | 10 |
| Risks of the red Zone | 18 | 12 | 18 | 14 | 16 |
| Total risks | **31** | **28** | **31** | **27** | **31** |

The internal control system of SK-Pharmaceuticals LLP is an integral part of the corporate governance system, covering all levels of management, all internal processes and operations of SK-Pharmaceuticals LLP.

The activities of SK-Pharmaceuticals LLP within the framework of the internal control system are carried out in accordance with the Regulations on the internal control system of SK-Pharmaceuticals LLP. As part of internal control, a risk matrix has been developed; the key goal of the risk matrix is to correlate risks affecting the activities of SK-Pharmaceuticals LLP at the top, second and third levels of business processes. The matrix of risks and controls will allow testing of the operational effectiveness of control procedures with recording of deficiencies and areas for improvement. Also approved by the Supervisory Board of SK-Pharmaceuticals LLP on April 17, 2023 was Protocol No. 1 “Action Plan for Improving the Internal Control System of SK-Pharmaceuticals LLP for 2023.”

The purpose of the internal control system is to improve the processes of SK-Pharmaceuticals LLP by promptly identifying and preventing process risks to provide reasonable confidence to management in achieving SK-Pharmaceuticals LLP strategic and operational goals.

The internal control system is divided into four stages:

*1. Organization of an internal control system;*

*2. Preparation for internal control procedures;*

*3. Conducting an inspection in the structural division of SK-Pharmaceuticals LLP;*

*4. Formation of conclusions about the inspection results.*

All results identified during an audit in a structural unit are mandatory recorded in the Risk Management Reports and reports on the assessment of the internal control system of SK-Pharmaceuticals LLP on a quarterly basis.

# **Concept for the development of information systems of the Unified Distributor**

Today, as part of the digitalization of Kazakhstan, in order to introduce a system of personalized accounting of medicines and medical devices for each patient, Kazakhstan is actively integrating the information systems of the Ministry of Health of the Republic of Kazakhstan (ISLO, ERDB), medical organizations (MIS) and the Unified Distributor (EFIS). This step will make it possible to generate demand and monitor the use of medicines online, which will significantly improve the quality of medicine provision to the population.

The introduction of electronic procurement in the field of drug supply is an important project implemented as part of the digitalization of healthcare, which made it possible to eliminate administrative barriers, ensure transparency and objectivity of procurement procedures, which will ultimately help the industry strengthen the trust of Kazakhstanis.

The portal operates on the platform of the Electronic Commerce Center, where the electronic government procurement portal, e-Ministry of Finance and Treasury - Client are already based. The functionality of the portal is developed in a simple and accessible form, similar to government procurement, but taking into account all legal requirements for the procurement of medicines.

As part of the digitalization of healthcare, the Unified Distributor has launched a mechanism for paperless interaction with medical organizations. Now all applications from medical organizations for drug provision and the conclusion of procurement contracts are carried out in the information system of the Unified Distributor via an electronic digital signature.

This step made it possible to significantly optimize the application and contract campaign for the implementation of drug provision within the framework of the state volume of free medical care.

It should be noted that as part of the work to automate tender procedures, the Unified Distributor and the Single Operator JSC “CEF” finalized “Services for providing access to the electronic procurement system for medicines and medical products” and “Modification of the procurement module in terms of finalizing the implementation method procurement of medicines and (or) medical devices through “One Source” under long-term supply contracts for the corresponding financial year on the Public Procurement portal.

In connection with the changes made to Rule No. 110, changes were made to the templates posted on the web portal, deviations in the price offer were finalized in the “Purchasing” module, the possibility of correction by the potential supplier of the price offer at the second stage was implemented, and further extension of the price offer into the contract .

As part of the automation of competitive and tender procedures, the productivity of the web portal has been increased and the ability to carry out procurement procedures for 100 or more lots upon concluding a long-term contract with the intention of creating production or modernizing the existing production of medicines and medical devices has been implemented, in the “Competition” module (storage services and transportation of medicines and medical devices) new requirements have been added for potential suppliers to provide GDP and grounds for rejection under GDP and other work.

The Unified Distributor has carried out work to develop a module for submitting applications for the centralized purchase of medical equipment by customers on the EFIS portal. Thus, specialists from regional health departments were trained in the procedures for submitting applications to the EFIS, and NCELS specialists also trained in the procedure for preparing and submitting applications for expert assessment of technical specifications with the provision of relevant presentation materials and forms to fill out, instructions for submitting applications and a training video were prepared, and the requirements for documentation required to submit an application in accordance with Rules No. 110.

As part of the Memorandum of Understanding and Cooperation between SK-Pharmaceuticals LLP and CEF JSC dated March 9, 2022, work was carried out to modify the module for centralized procurement of medical equipment on the procurement web portal of CEF JSC, and a procedure for integrating the EFIS portal and the procurement web portal was carried out , SK-Pharmaceuticals LLP employees were trained in procedures and algorithms for working on the web portal. The integration of the EFIS portal and the procurement web portal regarding the centralized procurement of medical equipment was completed in June 2022.

**Labeling of medicines and medical products.**

The Unified Distributor was directly involved in the implementation of a pilot project for labeling medicines and medical devices. As part of the pilot project, in accordance with the protocol instructions of the Deputy Prime Minister of the Republic of Kazakhstan, on July 29, 2021, at the warehouse of the Unified Distributor in Astana, a demonstration of labeling using the sticking method was carried out on automatic equipment for Efavirenz drugs in the amount of 128 packages with aggregation into transport packaging.

The pilot project was completed on July 31, 2022; as a result, together with Kazakhtelecom JSC, business processes were developed to finalize the information system for labeling and traceability of medicines in terms of reflecting the movement of drugs in the Unified Distributor system. At the same time, the pilot project made it possible to identify a number of systemic problems, and therefore the full transition to labeling and traceability has been postponed to 2024.

# **Counteraction to the corruption**

As part of the formation of an anti-corruption culture, the Unified Distributor interacts on an ongoing basis with the Anti-Corruption Agency of the Republic of Kazakhstan (Anti-Corruption Service).

SK-Pharmaceuticals LLP regularly conducts seminars for employees to explain innovations in anti-corruption legislation, where changes to the norms of the Law of the Republic of Kazakhstan on anti-corruption and ensuring the safety of persons subject to state protection are brought to the attention of employees, aimed at creating a system for protecting persons who report about facts of corruption.

In addition, on behalf of the Agency, the Standard Basic Direction “Preventing and Combating Corruption” is being implemented within the framework of Decree of the Government of the Republic of Kazakhstan dated May 31, 2021 No. 358 “On approval of the Rules for the implementation of project management.”

Within the framework of this area, such activities as internal analysis of corruption risks, the formation of an anti-corruption culture and the maintenance of an anti-corruption management system are carried out.

Reports on ongoing activities are promptly sent to the Anti-Corruption Agency of the Republic of Kazakhstan and the Ministry of Health of the Republic of Kazakhstan. The compliance officer regularly carries out an anti-corruption examination of internal regulatory documents in accordance with national legislation.

The implementation of the Anti-Corruption Policy of SK-Pharmaceuticals LLP is being monitored. All officials of SK-Pharmaceuticals LLP have adopted anti-corruption restrictions. Thus, officials of SK-Pharmaceuticals LLP (managing directors - members of the Management Board, chief accountant) annually, during the exercise of their powers, in the manner established by tax legislation, submit to the state revenue authority at the place of residence a declaration of income and property that is the object of taxation and located both on the territory of the Republic of Kazakhstan and beyond.

# **Implementation of the Development Strategy of the SK-Pharmaceuticals LLP for 2019-2023.**

The development strategy of SK-Pharmaceuticals LLP for 2019-2023 (hereinafter referred to as the Development Strategy) was approved by the decision of the Supervisory Board dated May 20, 2019 (Minutes No. 74).

The development strategy contains 3 strategic goals, 8 objectives, 17 KPIs and 32 activities (additionally 3 activities in the Roadmap according to the IT development concept).

Development Strategy and Roadmap for the implementation of the Development Strategy of SK-Pharmaceuticals LLP for 2019-2023, approved by the decision of the Supervisory Board of SK-Pharmaceuticals LLP dated July 23, 2019 (Minutes No. 77) (hereinafter referred to as the Roadmap) in accordance with the Concept for the Development of Information Systems, approved by the decision of the Board of SK-Pharmaceuticals LLP dated October 19, 2021 (minutes No. 40) were supplemented in accordance with the decision of the Supervisory Board of SK-Pharmaceuticals LLP dated July 29, 2022 (minutes No. 6).

Based on the results of monitoring the Development Strategy, the Unified Distributor ensured the implementation of key performance indicators in all areas.

**Table. Implementation of the KPI Development Strategy 2019-2023.**

| **Key Performance Indicator** | **Plan** | **Fact** |
| --- | --- | --- |
| Inventory turnover period, % | no more than 90 days | 38.98 days |
| Share of purchased medicines and medical products outside the List of the Unified Distributor (including retail), % | 100 | 100 |
| Share of savings from centralized procurement of MT, % | 1 | 12 |
| Share of medicines and medical devices purchased by the Organization according to the needs of medical organizations within the framework of GVFMC and CSHI, % | 95 | 100 |
| Number of medicines and medical products sold, billion conventional units. (based on the results of 2022) | 1,4 | 1,6 |
| Level of satisfaction of counterparties, % (based on the results of 2022) | 88 | 91 |
| Fulfillment of the delivery schedule to medical organizations within the framework of inpatient and outpatient drug provision, % (based on the results of 2022) | 100 | 103 |
| Personnel turnover,% | 10 | 5 |
| Achievement of financial performance indicators, % (at the end of 2022) | 85 | 127 |
| Share of cash losses associated with write-offs, % (at the end of 2022) | 2 | 0,6 |

At the same time, during the period of implementation of the Development Strategy for 2019-2023, the Unified Distributor completed the following key activities:

**2019:**

* Creation of a Platform for interaction with stakeholders
* Accreditation according to international QMS standards (ISO 9001, TÜV NORD GROUP)

**2020:**

* Expanding the coverage of ALO nosologies by 3 times
* Purchase of vaccines to combat COVID-19
* Creation of reserves for the retail network
* SK-Pharmaceuticals Reboot Program

**2021:**

* Centralization of the purchase of medical equipment
* Reboot of DP’s – inclusion of new criteria for LTC
* Improving logistics and optimizing routes
* Ensuring transparency of work

**2022:**

* Work on automation of procurement procedures
* Working with BigPharma and implementing pharmaceutical clusters
* Work with global MI vendors
* Completion of the pilot labeling project
* Accreditation according to anticorrosive standard

**2023:**

* Conclusion of LTC for localization of original drugs
* Pfizer and Roche
* Start of work on creating a regional pharmaceutical hub
* Allocation of land plots for the construction ofwarehouses
* GPO initiative – signing a memorandum with

At the same time, over the years of implementing the Development Strategy for 2-19-2023, the Unified Distributor has encountered a number of systemic problems, the solution of which should become a new challenge in the development of the company:

* Untimely acceptance by the Fund of consolidated registers for payment and incomplete payment for incorrect prescriptions, regular changes to the maximum prices retroactively entail a shortage of funds.
* Work on filling out the Unified Classifier of Medicines and Medical Devices has not been completed
* In medical organizations there is no integration of MIS and 1C, which makes it impossible to account for the balance of medicines and medical devices
* Calculation of the need for medicines and medical products for medical organizations is not automated
* In terms of labeling and traceability of drugs, there is no accounting for the removal from circulation of individual units labeled drugs before the patient in medical organizations
* medicines and medical products of the minimum stock are formed at the expense of the Unified Distributor’s own funds, and therefore it is not possible to form a minimum stock due to the occurrence of a cash gap and the lack of free funds in the current account.
* Allocation of budget funds for the purchase, refreshment, storage, transportation of medicines and medical products of the mobilization reserve, as well as the construction of warehouses.
* Bringing the range of medicines and medical products of the mobilization reserve in accordance with the List of the Unified Distributor and equipment sheets
* The amount of debt, taking into account the debts of previous years, as of 11/20/2023, is 32.9 billion tenge. Violation of the payment deadlines for the obligations of the medical organization to a Unified Distributor is regular, against the background of non-payment of the medical organization. The UD faces a cash gap year after year.
* Implementation of programs to centralize the purchase of medical equipment: leasing of DP medical equipment, long-term rental of medical equipment, improvement of medical equipment maintenance, creation of an Expert (technical) Council to improve the equipment of medical organizations with medical equipment and develop a unified policy in the field of providing medical equipment, as well as modernization of the IS MANAGEMENT SYSTEM of MEDICAL EQUIPMENT.

# **SWOT - ANALYSIS**

Based on the results of the analysis of the external and internal environment of the Organization, a SWOT analysis matrix was compiled.

This distribution of factors suggests that the strategy of SK-Pharmaceuticals LLP should be structured in such a way as to try to overcome existing weaknesses in the organization using the opportunities that have emerged.

|  |  |  |
| --- | --- | --- |
| **SWOT** | **O - OPPORTUNITIES** | **T - THREATS** |
| * *Creation of a pharmaceutical trade and transport hub;* * *Group procurement for Central Asian countries;* * *Government support for the industry in the post-pandemic period;* * *High interest of foreign investors in the localization of original products;* * *Changes in the geopolitical situation;* * *High demand for logistics services;* * *Digital transformation of Kazakhstan* * *Introduction of labeling and traceability of medicines and medical devices;* * *Within the EAEU there is an opportunity to intensify mutual relations and implement regional transport projects* | * *Underfunding of the healthcare system;* * *Small capacity of the pharmaceutical market;* * *Increase in prices for transportation and storage;* * *Shortage of high-quality warehouse space;* * *Lack of a single digital footprint for the circulation of medicines and medical products in the industry;* * *Dependence on imports, lack of public confidence in OTP products;* * *imperfection of pricing policy;* * *Lack of a unified planning methodology;* * *Increased cost of storage and transportation services.* |
| **S -** **STRENGTHS** | **SO** | **ST** |
| * *Exclusive right to centralized procurement of medicines and medical products and medical equipment;* * *Increasing purchase volumes through international organizations and from foreign manufacturers;* * *Long-term contracts with BigPharma for contract manufacturing and with DP;* * *Operating with mobilization reserve;* * *Improving regulatory legal acts;* * *Professionalism of employees and high commitment to the company.* | 1. Providing a Unified Distributor with the functions of operating a mobile reserve requires additional storage capacity, and the high demand for warehouse space, which is also being formed by companies that leave the Russian market and transfer or expand their business in Kazakhstan, increases the demand for a Unified Distributor in the construction of their own warehouses in the structure of a pharmaceutical trade and transport hub. 2. At the same time, the extensive experience of a Unified Distributor in the centralization of procurement and the availability of long-term contracts with OTP and for the contract production of innovative medicines with Bigfarma companies, while intensifying mutual relations and implementing regional transport projects with Central Asian and EAEU countries, allows a Unified Distributor to act as an operator of group cross-country purchases of medicines and medical products, which will allow the formation of drains and to ensure not only the timeliness of drug provision, but also national drug safety. | 1. Saving budget funds through centralized procurement of drugs, medical devices and medical supplies reduces the burden of underfunding of the healthcare system. In this regard, it is necessary to create new mechanisms that will significantly optimize budget expenses, and therefore group purchasing for Central Asian countries will provide significant savings due to supplier discounts on consolidated volumes.   Imperfect pricing policies may reduce Bigpharma’s interest in localization and technology transfer. In this regard, the ability of the UD to influence changes in legal regulations in the field of circulation of medicines and medical products as the main player should be aimed at improving them and creating a favorable investment climate. |
| ***W - WEAKNESSES*** | **WT** | **WT** |
| * *Weak level of automation of business processes;* * *Unstructured business processes for mutual settlements with the Federal Social Insurance Fund and an increase in accounts receivable;* * *Lack of authority for in-depth inspection of investment projects;* * *Contract system of storage and transportation services.* | 1. Kazakhstan's course towards digital transformation and the transition to labeling and traceability of medicines and medical products will allow IT to implement IT systems for tracking supply chains of medicines and medical products and ensure full automation of processes, which will ultimately reflect a transparent picture of the residues of medicines and medical products, create conditions for correct planning, ensuring efficient spending budget funds. 2. This will also make it possible to manage the cost of distribution and ensure transparency in the formation of tariffs in the case of a contract system of storage and transportation services. | 1. The lack of a unified digital footprint for the circulation of medicines and medical products in the industry and the weak level of automation of business processes can lead to corruption risks, and therefore it is necessary to improve the company’s corporate culture.   Dependence on imports, lack of public confidence in DP products, and the lack of powers of the UD to in-depth check investment projects, require improvement of institutional mechanisms for attracting and supporting foreign and domestic investors. |

Based on the SWOT analysis carried out, the most significant strategic initiatives of SK-Pharmaceuticals LLP were identified by filling out the problem fields.

As a result of the analysis of the SWOT problem field, the most critical strategic initiatives were:

* Improving institutional mechanisms for attracting and supporting foreign and domestic investors
* Improving regulatory standards in the field of circulation of medicines and medical devices
* Development of our own logistics infrastructure
* Implementation of information technologies for tracking supply chains
* Integrative measures within the framework of improving corporate governance

# **MISSION. VISION. STRATEGIC GOALS AND OBJECTIVES. KEY PERFORMANCE INDICATORS.**

The main prerequisites for the proposed directions of the new Development Strategy of SK-Pharmaceuticals LLP for 2024-2028 are the crisis of the pandemic and post-pandemic periods, the Kantar events, as well as the influence of the geopolitical situation on the system of unified distribution of medicines and medical products and the drug supply of the country as a whole.

Today, the Head of State sets a number of tasks on the development of a trade and transport hub in Kazakhstan with the industrialization of commodity groups, increasing the share of domestic producers in the market to 50%, intensifying cooperation with global pharmaceutical corporations, the importance of attracting investors, ensuring the transfer of technologies and the latest developments to domestic enterprises producing pharmaceutical products and medical equipment.

It is necessary to delve into the problems of equipping with medical equipment, study international experience and propose a transparent, effective mechanism for the purchase of medical equipment.

There is an urgent need to set the vector of the country’s technological progress; first of all, it is important to focus on the implementation of artificial intelligence in the field of transport and logistics.

The fundamental principle of the Development Strategy of SK-Pharmaceuticals LLP for 2024-2028 is patient-centric drug supply.

An analysis of external and internal factors in the activities of SK-Pharmaceuticals LLP indicates the need to form its own storage and distribution networks for medicines and medical products, as well as constant control over sales channels by maximizing the digitalization of the entire process – from procurement to sale, thereby ensuring timely delivery to the consumer and transparency at all stages.

Over the years of its existence, the consolidating role of SK-Pharmaceuticals LLP has fully proven its worth, providing annual budget savings and expanding patient coverage. Considering the state budget deficit, which in some cases limits access to medicines, as well as the small capacity of the sales market in Kazakhstan, it seems advisable to combine procurement between the countries of Central Asia, which will lead to lower prices for medicines and medical products caused by aggregation of demand, increasing the efficiency of procurement and quality standards through the sharing of technical potential and human resources, increasing availability and ensuring sustainability of supplies by stimulating suppliers and, as a result, increasing competition between them.

**The implementation of this strategic content will allow SK-Pharmaceuticals LLP:**

* Take comprehensive measures to ensure national drug safety of the Republic of Kazakhstan.
* Create an efficient logistics infrastructure with modern supply chain technologies.
* Create an atmosphere of trust and cooperation between partners, openness to society.
* Create a high corporate culture and ensure financial stability.

**THE DEVELOPMENT STRATEGY OF SK-Pharmaceuticals LLP FOR 2024-2028 DETERMINES:**

**MISSION**

Ensure the national drug safety of the country.

**VISION**

A Unified Distributor of medicines and medical devices, equipped with modern supply chain technologies and focused on patient needs.

**VALUES**

We cherish corporate values, focus on trust and cooperation between partners and adhere to modern management methods

**OBJECTIVE 1. Ensuring uninterrupted supply of medicines and medical devices within the framework of GVFMC, CSHI and mobilization reserve**

**OBJECTIVE 2. Improving the corporate governance system and ensuring the financial stability of a Unified Distributor**

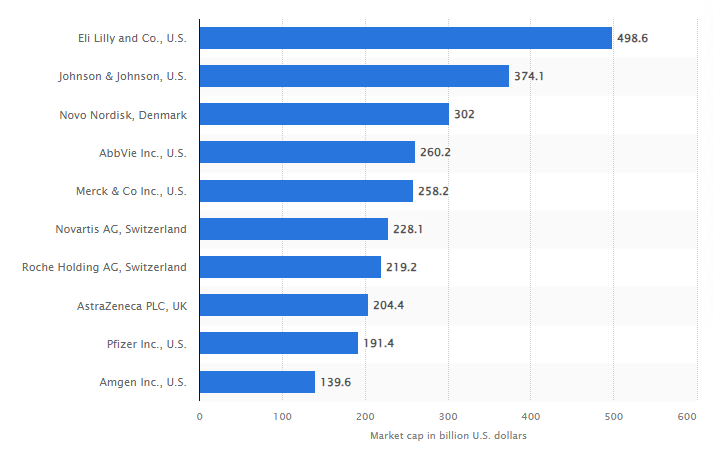
# **5.1. OBJECTIVE 1. Ensuring uninterrupted supply of medicines and medical devices within the framework of GVFMC, CSHI and mobilization reserve**

Today, the Head of State attaches great importance to developing the potential of the Kazakh pharmaceutical industry and ordered to increase the share of domestic production to 50% by 2025. In this regard, an important strategic priority of our Government is to create conditions for the production of innovative drugs in Kazakhstan.

An analysis of the coverage of medicines and medical products by domestic production within the framework of the purchase of a Unified Distributor demonstrates the bias of our manufacturers towards less technologically advanced production, low absorption of innovative pharmaceutical products, which significantly reduces the pace of industry development.

Obviously, an important factor for solving the above problems is, first of all, the improvement of regulations in the field of drug circulation.

Today, regulations have already been finalized to create favorable conditions for localizing the production of original BIGPHARMA drugs and medical equipment from global vendors, which helps to increase the pace of development and launch of new innovative production in Kazakhstan. Already at various stages of the process, investment projects for contract manufacturing are being implemented with five pharmaceutical companies in the top 10 of the world rankings, two of which have already concluded long-term contracts for the supply of original and patented medicines with contract manufacturing customers (Pfizer and Roche).



**Figure. TOP-10 biotechnology and pharmaceutical companies in the world by market capitalization as of 2023** (<https://www.statista.com/>)

Similar work is being carried out with large vendors of medical equipment. Today we have established joint production in the country with a number of Chinese and South Korean vendors. In September 2023, an agreement has already been signed with the largest manufacturer of medical equipment, General Electric, and it is also planned to sign memorandums with Canon, Philips and Mindray.

For the successful implementation of the goals set by the Head of State, there is a need to create a favorable infrastructure for the development of the domestic pharmaceutical industry, where, on the initiative of the Unified Distributor, pharmaceutical clusters have been created in the cities of Astana, Shymkent and Aktobe.

An important tool in solving the above problems is the creation of a dialogue platform that allows establishing an open dialogue between government agencies and large businesses, laying a solid foundation for further cooperation. In this direction, the Unified Distributor has been holding the International Pharmaceutical Forums “GLOBAL PHARM” and “MEDTECH” since 2021. These forums have acquired an annual format and bring together representatives of industry ministries and associations, top managers of major global pharmaceutical companies, domestic pharmaceutical factories, as well as representatives of companies engaged in related industries, including logistics and storage, packaging and labeling, etc. .

**The Unified Distributor is working on implementing a group purchasing format for the countries of Central Asia and Mongolia**. In October 2023, the first step was taken, a Unified Distributor signed a memorandum with the State Enterprise "Kyrgyzfarmation" under the Ministry of Health of the Kyrgyz Republic, within which it is planned to conduct pilot purchases for Kazakhstan and Kyrgyzstan in 2024, which will primarily ensure an increase in coverage of the population of both countries by saving budget funds while consolidating the purchase of medicines.

As part of this task, work will continue to improve electronic procurement, which will reduce labor costs, increase transparency, reduce the time required for the procurement process and consideration of price proposals from potential suppliers.

Guaranteeing reliability of supply is an important part of the activities of the Unified Distributor and will be ensured by further processes of formation of the minimum stock of the Unified Distributor and compliance with all procedures for monitoring, replenishment and maintenance of the minimum stock, which will help reduce the risk of failure in the supply of medicines and medical products.

As part of the implementation of this goal, it is planned to increase the return on business through various types of upgrades: from the introduction of modern software to the replacement of old planning schemes with more innovative ones, using information systems and their capabilities. In this case, the improvement of the existing information systems of SK-Pharmaceuticals LLP and the introduction of modern software products will automate part of the business processes and increase the level of employee communication.

Among other things, this goal implies a radical restructuring and optimization of all business processes, which will make teamwork at SK-Pharmaceuticals LLP more efficient, as well as eliminate many business problems.

Many innovations, for example, the introduction of the purchase of medicines and medical devices within the framework of outpatient drug provision, face obstacles that arose due to spontaneously formed business processes, not working out all chains of new business processes, unpreparedness and/or insufficient competence of employees within the framework of new activities, and much more.

The dramatic changes taking place in modern healthcare, including the absolute need to reduce costs and increase hospital productivity, are forcing hospitals to rethink how they use resources and build teams to achieve their strategic goals. In today's competitive healthcare environment, a hospital pharmacy must be considered a strategic asset. The pharmacy of a modern healthcare organization must make a significant contribution to the organization's revenue growth, increasing efficiency, reducing waste, improving patient outcomes and creating competitive advantages.

Lean pharmacy management practices can result in shorter hospital stays for patients, reduced organization working capital requirements, reduced overtime hours and pharmacist turnover, and other benefits.

The pandemic has become the starting point for an accelerated digitalization process and an increase in demand for technology. The pharmacy service in medical organizations is entrusted with a high degree of responsibility. For one of the hospital's busiest departments, technology solutions, from electronic pill counting devices to fully computerized storage and labeling solutions, have played a defining role in pharmacies around the world.

In attempts to build effective management of the supply chain of medicines and medical products from supplier to consumer, a global reorientation of the entire set of business processes is becoming increasingly important, putting forward new requirements for all participants in the pharmaceutical market with an emphasis on the needs of the patient. In this process structure, the medical organization is the most important link where the hospital pharmacy performs the main function of ensuring the quality and safety of drug therapy for patients.

Currently, the main problem in the logistics of medicines and medical devices in Kazakhstan is building end-to-end management of the range of pharmaceuticals, which should ensure compliance with controlled parameters throughout the entire chain of goods movement from the manufacturer to the end consumer. At the same time, the lack of effective pharmacy management at the level of medical organizations leads to a shortage / surplus of medicines and medical devices, which ultimately leads to damage to the health of patients, financial losses of medical organizations and distributors, and, as a result, inefficient spending of budgetary funds and payers' funds in the health insurance system.

In the changing healthcare climate, the existing pharmacy management model is no longer sufficient to contain costs and ensure the “5R” rule (right product, right customer, right quantity, right place, and right quantity).

In this direction, Cardinal Health, Inc., the world's largest distributor of pharmaceuticals and provider of productivity and data solutions for healthcare organizations, has defined a new philosophy of pharmacy management.

Based on the accumulated experience, the company develops and implements new solutions that can turn the pharmacy into a strategic asset of the hospital, and one of these decisions by Cardinal Health was the implementation of an initiative based on four principles - the “4 F Framework”:

Find revenue - Find a significant increase in revenue,

Fix Inefficiencies - Correct inefficiencies,

Fulfill quality care mission - Fulfill the mission of providing quality patient care

Follow the patient - Follow the patient.

Steps to transition the drug supply system to digital are also being taken in Kazakhstan. The Unified Distributor is one of the participants in the pilot and is directly involved not only in the traceability chain, but also in the labeling itself. The main goal of the pilot project is to test all labeling processes: ordering and applying labeling codes to drug packaging, ensuring traceability along the entire route of movement and withdrawal from circulation.

Together with Kazakhtelecom JSC, the Unified Operator of the Product Labeling and Traceability System, we initiated the testing of one of the marking methods - labeling. Taking into account the small capacity of the pharmaceutical market in Kazakhstan, this method can be an effective solution for the purchase of original drugs and the supply of minimum factory batches of imported drugs.

In general, digitalization will provide a transparent chain of movement of medicines, help automate the industry, and pharmacies will have the opportunity to predict and manage data on medicines, and make rational decisions on purchasing and storage. These tools will help build knowledge while using all available information to improve the drug delivery system.

In accordance with subparagraph 9) of Article 247 of the Code of the Republic of Kazakhstan dated July 7, 2020 “On the health of the people and the healthcare system” (hereinafter referred to as the Code), the Unified Distributor has been given powers to supply, store medicines and medical products of the mobilization reserve and release them in the order of refreshment and de-reservation in cases of changes in the nomenclature provided for by the legislation of the Republic of Kazakhstan on civil protection. At the same time, the absence of SK-Pharmaceuticals LLP’s own warehouses was not provided for, and therefore the Unified Distributor currently does not have the infrastructure capabilities to store medicines and medical products of the mobilization reserve in accordance with all the safety and timeliness requirements for this product.

It should be noted that SK-Pharmaceuticals LLP currently rents space for storing medicines and medical products at 4 hubs, the capacity of which cannot cope with the annual increase in the volume of purchased medicines and medical products, due to an increase in purchase financing over the last 3 years by 30 %. In addition, storing drugs from the mobilization reserve requires additional financial resources to rent the missing space.

In this regard, due to the acute shortage of warehouse space that meets the GDP standard, and also taking into account that in emergency situations, the supply of medicines and medical products of the mobilization reserve must be carried out on time, the construction of SK-Pharmaceuticals LLP’s own warehouses has become a necessary measure .

As part of this strategic goal, SK-Pharmaceuticals LLP plans to create a logistics infrastructure by constructing its own warehouses, the capacity of which will ensure high-quality storage of medicines and medical products purchased both within the framework of GVFMC and CSHI, and to create a mobilization reserve.

Moreover, as part of the execution of the order of the Head of State on the development of a trade and transport hub in Kazakhstan with the industrialization of product groups, the warehouse and transport logistics system of SK-Pharmaceuticals LLP will become part of this grandiose project.

Interception of commodity flows, consolidation with subsequent production of goods for supply to neighboring markets, development of a full cycle of services, including management of global supply chains and contracts, will consolidate Kazakhstan’s position as the undisputed economic leader in the region.

Today, there are more than 100 enterprises in the industry, and the positioning of Kazakhstan as a trade and transport hub in the Central Asian region will give a certain impetus to the development of pharmaceutical production.

In accordance with trends in the development of digital technologies, SK-Pharmaceuticals LLP pays special attention to the development of digitalization and automation projects.

It should be noted that Head of State Kassym-Jomart Tokaev, speaking at the Digital Bridge 2023 forum, emphasized that artificial intelligence is no longer science fiction, it has become our reality. The President presented the key priorities in the direction of developing artificial intelligence: “We are about to adopt a strategic document defining the tasks and tools for the development of AI. This step will allow us to set the vector of the country’s technological progress. I believe that we should first of all focus on the implementation of AI in key industries such as the oil and gas sector, energy, agriculture, transport and logistics.”

Taking into account the direction of technology development, in 2021 SK-Pharmaceuticals LLP developed the Concept for the development of information systems of the Unified Distributor. In accordance with the above Concept, the main directions of development of information technologies are the following projects:

1. Automation of warehouse and transport management (WMS – Warehouse Management System and TMS – Transport Management System);

2. Automation of supply chain management and planning of material resource requirements (SCM - Supply Chain Management and MRP - Material Resource Planning));

3. Automation of customer relationship management (CRM Customer Relationship Management);

4. Creating a data warehouse (Data Warehouse) and building an analytical system (BI - Business Intelligence) using artificial intelligence (AI - Artificial Intelligence).

It should be noted that the projects are interconnected and will be implemented in a sequence that allows for the most efficient distribution of the stages of preparing business processes and data for the subsequent creation of tools for analyzing the data obtained and making management decisions based on them.

Automation of warehouse management will provide:

1) active warehouse management;

2) obtaining accurate information about the location of the goods in the warehouse;

3) effective management of goods with limited shelf life;

4) increasing the efficiency and development of processes for processing goods in the warehouse;

5) optimization of the use of warehouse space;

6) synchronization of databases of the Ministry of Health of the Republic of Kazakhstan with the Unified Distributor.

**Automation of transport management will provide:**

1) obtaining accurate information about the location of the vehicle when transporting goods;

2) obtaining accurate information about the distance traveled by the vehicle;

3) track and redirect flights in progress;

4) calculate performance indicators of storage and transportation service providers;

5) synchronization of databases of the Ministry of Health of the Republic of Kazakhstan with the Unified Distributor.

Another technology developed since 2021 by the National Bank of the Republic of Kazakhstan (hereinafter referred to as the NBRK) is the “Digital Tenge” project (hereinafter referred to as the DT). DT is a new form of money in Kazakhstan, the issue of which will be carried out by the National Bank of Kazakhstan. DT is not intended to replace cash or non-cash money, but will be used in parallel. In 2022, the National Bank of Kazakhstan, together with market participants, the expert community and international partners, completed a study on the need to introduce DT. By the end of the same year, according to published research results, a decision was made in Kazakhstan to gradually introduce district heating in three phases until the end of 2025.

**The introduction of DT will potentially provide the following effects:**

- creation of new payment services by market participants using the “smart contracts” mechanism;

- further development of remote biometric identification;

- increased penetration of non-cash payments;

- uninterrupted operation of the National Payment System;

- the efficiency of government payments by increasing the transparency of targeted spending of budget funds by giving unique features to the digital tenge issued to finance budget expenditures.

In connection with the above, with sufficient development of the infrastructure of the Digital Tenge project, SK-Pharmaceuticals LLP aims to consider the possibility of using DT to optimize and increase the transparency of procurement and conclusion of contracts.

# **Task 1.1. Creation of an effective logistics infrastructure**

1. **Implementation of a project for the construction of warehouses and the organization of transport flows**

Ways to implement the construction of a warehouse system for SK-Pharmaceuticals LLP:

1) Development and approval of design documentation;

2) Development and approval of an organizational and financial model of warehouse and transport infrastructure;

3) Development of proposals for introducing changes and additions to the legal acts;

4) Development and approval of the feasibility study;

5) Organization of construction and installation work and registration of the warehouse.

KPR: Completion of construction of 6 regional warehouses (hubs) by 2025, fact

1. **Organization of processes for operating medicines and medical devices of the mobilization reserve**

Ways to implement the functionality for operating the mobilization reserve:

1. Stage 1 of purchasing and renewing medicines with subsequent storage in rented warehouses;
2. Stage 2 of purchasing and renewing medicines with subsequent storage in rented warehouses;
3. Stage 3 of purchasing and renewing medicines and medical products of the mobilization reserve;
4. Development of proposals for improving legal acts in terms of operating the mobilization reserve.

**KPI: Purchase of medicines and medical products of the mobilization reserve from the total nomenclature of the storage volume of the mobilization reserve, %**

# **Task 1.2. Implementation of an IT system for tracking supply chains of medicines and medical devices**

Ways to improve supply chain tracking information technologies:

1. Automation of warehouse and transport management (WMS and TMS);
2. Implementation of management systems for own warehouses and transport (WMS and TMS) and equipping with the necessary equipment;
3. Automation of supply chain management and material resource requirements planning (SCM and MRP);
4. Development of digitalization and automation projects based on the results of implemented projects.

**KPI: Share of traceable supply chains of purchased medicines and medical devices before MO, %**

**Цикл Деминга**

# **Task 1.3. Increasing the efficiency of internal business processes and their automation**

Ways of implementation:

1. Reengineering and optimization of internal business processes;
2. Automation of internal business processes;
3. Integration with third-party information systems;
4. Improvement of information and analytical support for activities (BI);
5. Improving procedures for purchasing medical equipment (standardization of equipment requirements, after-sales service, etc.);
6. Improving procurement procedures for medicines and medical devices;
7. Ensuring a minimum balance in the warehouses of the Unified Distributor.

**KPI: Fulfillment of the delivery schedule to medical organizations as part of inpatient and outpatient drug provision, %**

**KPI: Share of purchased medicines and medical devices in accordance with requests from medical organizations, %**

**KPR: Share of medicines and medical products of the minimum balance in the warehouses of the Unified Distributor, %**

# **Task 1.4. Improving institutional mechanisms to attract and support foreign and domestic investors**

Ways of implementation:

1. Development of proposals for improving regulatory legal acts in terms of improving the investment climate in the pharmaceutical industry;
2. Development of business communications with BigPharma companies within the framework of contract manufacturing;
3. Management of investment projects.

**KPI: Share of purchases of medicines and medical products of domestic production from the total volume of purchases in value terms, %**

# **Objective 2. IMPROVEMENT OF THE CORPORATE GOVERNANCE SYSTEM AND ENSURING FINANCIAL STABILITY OF A UNIFIED DISTRIBUTOR**

In modern development conditions, issues of increasing efficiency for any economic entity are relevant. This aspect also seems important for the public sector of the economy, which acts as the main regulator of the entire system of the national economy and the main producer of public goods.

The development of the human resource management system of the state apparatus is one of the areas of administrative reform in Kazakhstan. The main goal is to ensure a quick and high-quality solution to the daily pressing problems of the population on the ground, as well as a high level of development of the country’s regions and economic sectors. The effectiveness of transformations in all spheres of public life directly depends on the effectiveness of the state apparatus.

Particular attention should be paid to improving management efficiency in the quasi-public sector. It is necessary to clearly delineate the functionality, tasks and criteria of the quasi-public sector, improve financial discipline, reduce the state's share in the economy, increase the efficiency of monitoring and evaluation, and strengthen corporate governance.

A Unified Distributor belongs to a quasi-public sector entity, being a single operator for the purchase and storage of medicines and medical products for the population within the framework of GVFMC and CSHI. Today, the Unified Distributor is an organization subordinate to the Ministry of Health of the Republic of Kazakhstan with 100% state participation.

In any industry, the main resource, of course, is human capital. Each specialist is a combat unit and the quality of the work performed depends on the employee’s skill level.

By assessing personnel performance, you can obtain quantitative indicators that characterize the company's personnel potential. In this matter, the development of a system of quantitative and qualitative indicators is of great importance. They fully reflect the situation with how effectively human resources are used and managed at the enterprise.

**The effectiveness of each employee affects the company's results.**

Efficiency (in Latin efficientia) comes from the word “effectus” and means “to do” or “to produce.” It is the ability to complete work tasks and achieve set goals with minimal expenditure of resources, such as time and money. Often, employee performance is measured only in quantitative terms - for example, how many products a master produced in a certain time. But this is only one of the criteria. Performance should be considered holistically. *What is important to consider: effectiveness, efficiency, economy, organization, rationality and functionality.*

The effectiveness of the company’s personnel depends on the following factors: professional competencies of employees, regulation of business processes, motivation of personnel’s work, management style of the company’s head.

The unified distribution system has proven its effectiveness in matters of drug supply to the population, its uninterruptedness and expediency. Every year processes are automated and new technologies are introduced.

Given the importance of improving the organization of managerial work, management technologies are also improving. This area is associated with the effective organization of employee labor. The main task of each employee is to make decisions regarding the efficiency of the production process. It is the employees who play the key role in the process of maintaining a balance between production activities and set goals, in determining the optimal option for production development and maintaining its efficiency. In this regard, the Unified Distributor at this stage of its activities completes the Reboot Program and begins the Efficiency Program.

An effective management system for SK-Pharmaceuticals LLP is an important factor in ensuring high-quality and uninterrupted supply of medical products to the country's population. To achieve this goal, SK-Pharmaceuticals LLP will introduce new and develop a number of existing processes.

As one of the areas for improving management technologies of SK-Pharmaceuticals LLP, one can highlight the improvement of the organization of managerial work. This area is associated with the effective organization of employee labor, where the main task of each employee is to make decisions regarding the efficiency of the production process. It is the employees who play the key role in the process of maintaining a balance between production activities and set goals, in determining the optimal option for production development and maintaining its efficiency. However, the presence of highly specialized personnel at SK-Pharmaceuticals LLP plays an important role in the implementation of this direction. In this regard, the organization intends to carry out continuous work to develop human resources.

A strong corporate culture and financial strength are two key factors influencing the success of any organization. Forming these aspects can be a complex process that requires significant effort on the part of the company's management and employees. The formation of a high corporate culture includes many aspects, including:

* determination of the company’s core values and principles that will be shared by all employees;
* creation of a clear management structure and distribution of responsibilities between employees;
* implementation of a personnel training and development system that will help employees grow professionally and personally;
* creating a favorable working atmosphere where every employee feels valued and respected;
* development of a system of motivation and encouragement for employees that will encourage them to achieve the overall goals of the company;
* regular holding of events aimed at strengthening corporate spirit and developing team interaction.

Ensuring the financial stability of any company is an integral part of its development strategy. As part of achieving this goal, the financial management system will be aimed at the effective use of its own working capital through an optimal financial management model. At the same time, building an optimal financial management model requires comprehensive work to improve the structure and process of functioning of the financial management system, taking into account external factors affecting the sustainability of SK-Pharmaceuticals LLP. The financial strength of a company implies the ability of an organization to maintain profitability and solvency in the long term.

It is critical to create an environment where compliance rules and regulations are followed. This includes training employees, creating a compliance culture, supporting senior management, and ensuring accountability for compliance at all levels of the organization.

Taking into account the transition of SK-Pharmaceuticals LLP to group purchases for foreign countries and positioning itself as a regional transport hub, which will focus, including transit cargo for co-designated states, there is a need to improve the compliance service of SK-Pharmaceuticals LLP in terms of external interaction, namely, the introduction of antitrust and anti-sanction compliance, assistance to the green transformation of SK-Pharmaceuticals LLP, as well as the implementation of a comprehensive due diligence check.

Various tools will be used to inform the public about the activities of a Unified Distributor, conduct a dialogue with the public, ensure instant response to citizens' requests, interact with the media, patient organizations, medical associations, industry associations, and maintain a positive image of a Unified Distributor.

In order to increase public awareness of the mechanisms of providing medicines to the population in GVFMC and CSHI, as well as the formation and maintenance of a positive image of SK-Pharmaceuticals LLP, explanatory work will be carried out on an ongoing basis through the study of the target audience, information campaigns, formation of public opinion, transparency and openness of processes within the PR strategy

The post-pandemic period requires a special response in a prompt manner in providing the necessary and reliable information, as well as care when forming the design of the text and a certain message in your answers. Such conditions require changes in the company’s information policy and increased efforts to inform the public about its activities. SK-Pharmaceuticals LLP will adhere to the principles of the Cruising PR strategy, the main directions of which should be a long-term plan for the development of transparent relations between the brand and the target audience and determining the course for the development of the company’s relationship with the audience. SK-Pharmaceuticals LLP is open to direct dialogue and interaction with the public and is committed to close cooperation and constructive dialogue so that every valuable proposal finds practical implementation and is a useful tool for improving the drug supply of the population. In its work, SK-Pharmaceuticals LLP will continue to adhere to the principle of openness to civil society and the media.

# **Task 2.1. Human capital development and corporate communications management**

Ways of implementation

1. Creating a favorable working environment - development and implementation of career development programs, professional mobility and experience exchange. Implementation of an efficiency program;
2. Personnel training (thematic trainings and seminars), including on-the-job training (mentoring and coaching from experienced workers);
3. Development and improvement of effective mechanisms to ensure strengthening and increasing the positive image of the organization and transparency of activities;
4. Creation of an effective system of interaction between stakeholders (analysis and increase of loyalty, development of proposals for the development of the e-medskills project).

**KPI: Share of completed activities within the framework of the implementation of the efficiency program, %**

# **Task 2.2. Integration of process management, internal control and risk management systems**

Ways of implementation:

1. Ensuring control over compliance with internal policies and procedures, analysis and risk assessment, as well as monitoring the activities of departments and employees;
2. External assessment of the organization’s corporate governance;
3. Improving the management system and monitoring the execution of processes;
4. Improving the compliance system: introducing anti-monopoly, anti-sanction and environmental compliance, carrying out a comprehensive check of the reliability of counterparties (due-diligence).

**KPI: Share of realized corporate risks, %**

**KPI: Final assessment of the corporate governance system by main components,%**

# **Task 2.3. Fulfillment of financial performance indicators up to 100%**

Ways of implementation:

1. Improving the dividend policy and legal acts in terms of regulating the mechanism of interaction with the Social Health Insurance Fund;
2. Creation of a system for monitoring financial stability and solvency;
3. Analysis of accounts receivable and forecasting possible delays from medical organizations;
4. Taking measures to reduce accounts receivable.

**KPI: Achievement of financial performance indicators, %**

# **KEY RISKS**

**The Global Risks Report 2023, produced by the International Economic Forum with the support of Marsh & McLennan (January 2023), reveals the outlook for the most significant threats that could impact the world in 2023 and the coming decade. This report is based on the views of nearly 800 international experts and decision makers. The report highlights critical themes in the global risk map. In 2023, they concern increased confrontation between and within countries, as well as increased tension and nervousness around some critical global issues.**

Key risks for the coming 2 years:

1. Terrorist attacks
2. Infectious diseases
3. Destruction of critical information infrastructure
4. Bursting asset bubbles
5. Chronic diseases and health conditions
6. Use of weapons of mass destruction
7. Destruction or absence of public infrastructure and services
8. Prolonged economic downturn
9. Adverse results from using advanced technologies
10. Spread of illegal economic activities
11. Widespread cybercrime and lack of cybersecurity
12. Employment crises
13. State collapse or serious instability
14. Digital divide and lack of access to digital services
15. Collapse of a systemically important industry or supply chain
16. Failure to stabilize price trajectories
17. Debt crises
18. Interstate conflict
19. Ineffectiveness of multilateral institutions and international cooperation
20. Geo-economic confrontation
21. Concentration of digital power
22. Severe deterioration in mental health
23. Large-scale incidents causing environmental damage
24. Cost of living crisis
25. Large-scale forced migration
26. Erosion of social cohesion and polarization of society
27. Natural disasters and extreme weather events
28. Natural resource crises
29. Loss of biodiversity and destruction of ecosystems
30. Disinformation and disinformation
31. Failure to adapt to climate change
32. Failure to mitigate climate change

Based on the presented risk rating, including those related to the consequences of the COVID-19 crisis, the Kantar events and the rapidly changing and escalating geopolitical situation in the world, a Unified Distributor must understand and prevent interdependent global risks, while taking into account the social, economic and political imperatives affecting its activities.

In this regard, the Development Strategy of SK-Pharmaceuticals LLP for 2024-2028 provides for the following key risks, divided into external and internal.

External risks are risks that originate outside the company, but affect its activities; internal risks are the direct risks of SK-Pharmaceuticals LLP.

|  |  |
| --- | --- |
| **RISKS** | **KEY RISKS OF SK-Pharmaceuticals LLP** |
| **External risks** | |
| Demand risks | Risk of poor planning on the part of medical organizations |
| Risk of excessive demand in a short period of time (“bullwhip effect”) |
| Supply risks | Risk of restrictions on cross-border movement of medicines and medical products |
| Risk of protracted supply chain disruptions for medicines and medical devices |
| Country risk |
| Risks from the external environment | Transaction and currency risk |
| Risk of force majeure |
| Risk of deviation of the transfer price from the market price |
| Employment crisis |
| **Internal risks** | |
| Process risks | Risk of shortage/surplus of individual product items in warehouses |
| Risk of non-compliance with storage and transportation conditions |
| Risk of restricting competition |
| Supply disruption risk |
| Risk of non-purchase of medicines and medical products and services |
| Risk of control | Risk of ineffectiveness of the internal control system |
| Sanctions risk |
| Personnel risk |
| Regulatory, legal and bureaucratic risks | Risk of delay in release of regulatory documents |
| Risk of financial loss |
| Risk of administrative resource shortages and lack of flexibility |
| Infrastructure risks | Risk of non-compliance with regulated procedures |
| Risk of increasing accounts receivable |
| Economic and technological risks in projects |
| Risks in the IT sector | Risk of digital divide and lack of access to digital services |
| Cybercrime risk and lack of cybersecurity |

# **KEY EFFECTS OF THE STRATEGY**

# **ARCHITECTURE OF INTERACTION OF STRATEGIC AND BUDGET PLANNING**

|  |
| --- |
| **Concept for the development of healthcare of the Republic of Kazakhstan - 2026** |
| **Development Plan of the Ministry of Health of the Republic of Kazakhstan for 2023 - 2027** |

**Strategic objectives of SK-Pharmaceuticals LLP**

|  |  |
| --- | --- |
| **Strategic objective 1.**  Ensuring uninterrupted supply of medicines and medical products within the framework of GVFMC, CSHI and the mobilization reserve | **Strategic objective 2.**  Improving the corporate governance system and ensuring the financial sustainability of the Unified Distributor |

**Objectives of SK-Pharmaceuticals LLP**

|  |  |
| --- | --- |
| **Objective 1.1.** Creating an effective logistics infrastructure  **Objective 1.2.** Implementation of an IT system for tracking supply chains of medicines and medical devices  **Objective 1.3.** Increasing the efficiency of internal business processes and their automation  **Objective 1.4.** Improving institutional mechanisms to attract and support foreign and domestic investors | **Objective 2.1.** Human capital development and corporate communications management  **Objective 2.2.** Integration of process management, internal control and risk management systems  **Objective 2.3** Meeting financial performance indicators up to 100% |

**Budgetary and own resources**

**STRATEGIC GOALS, OBJECTIVES AND TARGETS INDICATORS**

# **ROADMAP FOR IMPLEMENTATION OF THE DEVELOPMENT STRATEGY OF SK-Pharmaceuticals LLP FOR 2024-2028**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **EVENTS** | **2024** | **2025** | **2026** | **2027** | **2028** |
| **GOAL 1. ENSURING CONTINUITY OF SUPPLY OF MEDICINES AND MEDICAL DEVICES WITHIN GVFMC, CSHI AND MOBILIZATION RESERVE** | | | | | |
| **OBJECTIVE 1.1. Creation of an effective logistics infrastructure** | | | | | |
| Development and approval of design documentation |  |  |  |  |  |
| Development and approval of an organizational and financial model of warehouse and transport infrastructure |  |  |  |  |  |
| Development of proposals for introducing changes and additions to legal regulations |  |  |  |  |  |
| Development and approval of financial and economic justification |  |  |  |  |  |
| Organization of construction and installation work and warehouse registration |  |  |  |  |  |
| **KPI: Completion of the construction of 6 regional warehouses (hubs) by 2025, fact** | **-** | **6** | **-** | **-** | **-** |
| Stage 1 of purchasing and renewing medicines with subsequent storage in rented warehouses |  |  |  |  |  |
| Stage 2 of purchasing and renewing medicines with subsequent storage in rented warehouses |  |  |  |  |  |
| Stage 3 of purchasing and renewing medicines and medical products from the mobilization reserve |  |  |  |  |  |
| Development of proposals for improving legal acts in terms of operating the mobilization reserve |  |  |  |  |  |
| **KPI: Purchase of medicines and medical products of the mobilization reserve from the total nomenclature of the storage volume of the mobilization reserve, %** | **FAU** | **FAU** | **FAU** | **FAU** | **FAU** |
| **OBJECTIVE 1.2. Implementation of an IT system for tracking supply chains of medicines and medical devices** | | | | | |
| Automation of warehouse and transport management (WMS and TMS) |  |  |  |  |  |
| Implementation of management systems for own warehouses and transport (WMS and TMS) and provision of necessary equipment |  |  |  |  |  |
| Automation of supply chain management and material resource planning (SCM and MRP) |  |  |  |  |  |
| Development of digitalization and automation projects based on the results of implemented projects |  |  |  |  |  |
| **KPI: Share of traceable supply chains of purchased medicines and medical devices before MO, %** | **-** | **50** | **100** | **100** | 100 |

*Continuation*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **EVENTS** | **2024** | **2025** | **2026** | **2027** | **2028** |
| **OBJECTIVE 1.3. Increasing the efficiency of internal business processes and their automation** | | | | | |
| Reengineering and optimization of internal business processes |  |  |  |  |  |
| Automation of internal business processes |  |  |  |  |  |
| Integration with external information systems |  |  |  |  |  |
| Improving information and analytical support for activities (BI) |  |  |  |  |  |
| Improving procurement procedures for medical equipment (standardization of equipment requirements, after-sales service, etc.) |  |  |  |  |  |
| Improvement of procurement procedures for medicines and medical devices |  |  |  |  |  |
| Ensuring the minimum balance in the warehouses of the Unified Distributor |  |  |  |  |  |
| KPI: Fulfillment of the delivery schedule to medical organizations as part of inpatient and outpatient drug provision, % | **100** | **100** | **100** | **100** | **100** |
| KPI: Share of purchased medicines and medical devices in accordance with requests from medical organizations, % | **100** | **100** | **100** | **100** | **100** |
| KPI: Share of medicines and medical products of the minimum balance in the warehouses of the Unified Distributor, % | **100** | **100** | **100** | **100** | **100** |
| **OBJECTIVE 1.4. Improvement of institutional mechanisms for attracting and supporting foreign and domestic investors** | | | | | |
| Development of proposals for improving regulatory legal acts in terms of improving the investment climate in the pharmaceutical industry |  |  |  |  |  |
| Development of business communications with BigPharma companies within the framework of contract manufacturing |  |  |  |  |  |
| Management of investment projects |  |  |  |  |  |
| **KPI: Share of purchases of medicines and medical products of domestic production from the total volume of purchases in value terms, %** | **45** | **50** | **50** | **50** | **50** |

*Continuation*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **EVENTS** | **2024** | **2025** | **2026** | **2027** | **2028** |
| **GOAL 2. IMPROVEMENT OF THE CORPORATE GOVERNANCE SYSTEM AND ENSURING FINANCIAL STABILITY OF A UNIFIED DISTRIBUTOR** | | | | | |
| **OBJECTIVE 2.1. Development of human capital and management of corporate communications** | | | | | |
| Creating a favorable working environment - development and implementation of career development programs, professional mobility and experience exchange. Implementation of an efficiency program |  |  |  |  |  |
| Personnel training (thematic trainings and seminars), including on-the-job training (mentoring and coaching from experienced employees) |  |  |  |  |  |
| Development and improvement of effective mechanisms to ensure strengthening and increasing the positive image of the organization and transparency of activities |  |  |  |  |  |
| Creating an effective system of interaction between stakeholders (analysis and increasing loyalty, developing proposals for the development of the e-medskills project) |  |  |  |  |  |
| **KPI: Percentage of completed activities within the framework of the implementation of the efficiency program, %** | **80** | **85** | **90** | **95** | **100** |
| **OBJECTIVE 2.2. Integration of process management, internal control and risk management systems** | | | | | |
| Ensuring compliance with internal policies and procedures, risk analysis and assessment, as well as monitoring the activities of departments and employees |  |  |  |  |  |
| External assessment of corporate governance of SK-Pharmaceuticals LLP |  |  |  |  |  |
| Improving the management and control system for process execution |  |  |  |  |  |
| Improving the compliance system: introducing antimonopoly, anti-sanctions and environmental compliance, carrying out a comprehensive due diligence check of counterparties |  |  |  |  |  |
| KPI: Share of implemented corporate risks, % | **11** | **10** | **10** | **9** | **8** |
| KPI: Final assessment of the corporate governance system by main components,% |  | **64** |  | **67** |  |
| **OBJECTIVE 2.3. Fulfillment of financial performance indicators up to 100%** | | | | | |
| Improving the dividend policy and legal regulations regarding the regulation of the mechanism of interaction with the Social Health Insurance Fund |  |  |  |  |  |
| Creation of a system for monitoring financial stability and solvency |  |  |  |  |  |
| Analysis of accounts receivable and forecasting possible delays from medical organizations |  |  |  |  |  |
| Taking measures to reduce accounts receivable |  |  |  |  |  |
| **KPI: Execution of financial performance indicators,%** | **100** | **100** | **100** | **100** | **100** |

# **METHODOLOGY FOR CALCULATING KEY PERFORMANCE INDICATORS**

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | **Purchase of medicines and medical products of the mobilization reserve from the total nomenclature of the storage volume of the mobilization reserve, %** |
|  | FAU |
|  | FAU |
|  | |

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | Share of traceable supply chains of purchased medicines and medical devices to medical organizations, % |
|  | Number of medicines and medical products for which the supply chain can be traced to a medical organization |
|  | Number of purchased medicines and medical products during the reporting period |
|  | |

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | Fulfillment of the delivery schedule to medical organizations within the framework of inpatient and outpatient drug provision, % |
|  | Number of items of drugs, medical devices shipped to medical organizations (according to delivery schedules within the framework of inpatient drug provision + according to orders within the framework of outpatient drug provision) |
|  | Total quantity of the declared need of the Ministry of Health (according to delivery schedules within the framework of inpatient drug provision + according to orders within the framework of outpatient drug provision) |
|  | |

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | Share of purchased medicines and medical devices in accordance with requests from medical organizations, % |
|  | Volume of medicines and medical products purchased according to the needs of the Moscow Region in physical terms for the period |
|  | Total volume of demand for medicines and medical products declared by the Ministry of Defense in physical terms for the same period |
|  | |

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | Share of medicines and medical products of the minimum balance in the warehouses of the Unified Distributor, % |
|  | Quantity of medicines and medical products located in the warehouses of the Unified Distributor |
|  | Quantity of medicines and medical devices approved for purchase for minimum stock |
|  | |

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | Share of purchases of medicines and medical products of domestic production from the total volume of purchases in value terms % |
|  | Volume of domestically produced medicines and medical products purchased for the reporting period (in value terms) |
|  | Volume of medicines and medical devices purchased for the reporting period (in value terms) |
|  | |

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | Share of completed activities as part of the implementation of the efficiency program, % |
|  | Number of completed performance program activities for the reporting period |
|  | Number of planned activities of the efficiency program for the reporting period |
|  | |

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | Share of realized corporate risks, % |
|  | Number of realized risks (moved into the red zone) according to the Risk Map for the reporting period |
|  | Total number of risks according to the Risk Card for the reporting period |
|  | |

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | **Final assessment of the corporate governance system by main components,%** |
| **According to external assessment report (fact)** | |

**KPI**

|  |  |
| --- | --- |
| **Designation** | **Description** |
|  | Achievement of financial performance indicators,% |
|  | Actual value of the financial performance indicator for the period |
|  | Planned value of the financial indicator for the same period |
|  | |
| *RESULT: average value of the share of performance indicators*  *ROA, ROE, ROS, EBIDTA* | |