OFFICIAL COMMENTS ON PHARMACY CHAIN 36.6
9M2008 AUDITED RESULTS

by

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Thank you Jere.

During the 9M of 2008 the Group sales grew by 38% and reached US$ 813,2 million. The number of stores at the end of Q3 was 1168 verses 1085 at the end of Q307.

Veropharm has already reported its annual results on 12.11.2008, so I will focus on the retail segment which represents 80% of consolidated Group's revenue.

Revenue

As compared to the relative period the year before, in 9M 2008 sales of the retail unit grew by 43%. The net retail sales[1] reached US$ 642.1 million (+34.1%) including the effect from M&A (+8%) and organic opening activity (+5.5%).

Sales in the third quarter of 2008 decreased by 5% versus Q2 of which 1,34% relates to store closing and the rest is due to seasonality.

Gross margin.

The retail operations posted a gross margin increase from 25.3% in Q1 to 26% in Q2 and further to 31.1% in the third quarter . The cumulative gross margin for 9M is 27.4%.

The increase of Gross Margin is mostly attributable to the significant progress in Moscow region which accounts for almost 37% of the total Retail network revenue. In Q3 gross margin in Moscow increased to 35% from 32,6% in Q3 2007. Our Private label products have also positively contributed to this increase. In Q3 private label share of revenue has climbed to 5% with gross margin reaching 66,5%.

[1] Excluding wholesale operations

Moving into the fourth quarter, however, we feel additional pressure on our gross margin in retail as supplier prices increase due to the rouble/dollar exchange rate growth.

SG&A

Sales, general and administrative expenses reached US$ 212,1 million in 9M 2008 (32.3% of sales as compared to 33,2% the year before) with key items represented by personnel costs (US$ 91,8 million) and rent (US$ 59,3 million), up 69% and 35% respectively as compared to 9M 2007. The increases include consolidation effect from store openings and aggressive acquisitions in 2007. In absolute terms SG&A expense in Q3 was US$ 67,9 million which is US$ 2,4 million less than in Q2 as a result of management's efforts to reduce costs and represented 32,8% of revenue versus 37% in Q3 2007.

EBITDA

Retail EBITDA in Q3 reached US$ 0,5 million which represents a significant improvement from - US$10,5 million in Q3 2007. Third quarter results also demonstrates remarkable achievement over negative results of Q2 with -USD9,9 mln and -USD 11,1 mln in Q1 of the current year.

Group consolidated EBITDA of the 3Q reached US$ 10,6 million compared with – USD2.2 mln in 3Q a year ago.

Net Profit

The Group reported a net profit in Q3 of US $3.6 million versus a loss of $25 million in the prior year period on the partial sale of its real estate fund, which generated a one time US$ 16,9 million profit, solid performance in the manufacturing unit, and reduced losses in the retail unit. Year to date, the Group's net loss was –US$ 4,5 million, an 89% improvement as compared to 9M 2007.

Financial Costs

Financial costs in Q3 totaled US$ 9,0 million of which interest expenses accounted for USD7,6 mln. This represents a decrease of 20% from US$ 11,4 million in Q3, 2007 of which USD10,2 mln was interest related . On a year-to-date basis, the Group's financial costs grew by 28% to US$ 29,8 million as a result of increased cost of debt servicing and additional expenses related to our investment joint venture, an SPV created to attract investments for the development of the pharmaceutical retail. In 2007 the bulk of financial expenses related to this joint venture were only charged to the P/L statement of the Company in the fourth quarter.

Year to date foreign exchange loss amounted to US$7.2 million. The Group is taking necessary steps to protect it's foreign currency denominated obligations against further devaluation by renegotiating hedging contracts to tailor them to the current economic environment..

Financial Debt

As of the end of 9M 2008, the Group's financial debt decreased to US$ 193,8 million from US$ 322,6 million the year before, USD242,4 mln on 30th June 2008 and $292 million on January 1st, 2008.

Retail debt has moved from USD271,8 mln at the beginning of the year to USD224,2 mln at end of Q2 down to USD174,9 mln at the end of Q3. The debt reduction has been financed through operating cash flows and proceeds from non-core asset disposals. As of the end of Q3 retail financial debt is 70% rouble denominated and 30% USD. 85% is short term and 15% is long term.

Accounts payable

The retail unit's accounts payable increased to US $226.7 million at the end of Q3, 2008 versus US$ 129.8 million in the similar period last year as total turnover increased, extended payment terms from manufacturers and suppliers were negotiated and working capital was used to meet financial debt obligations. The decline of accounts payable from USD296 mln at the end of 2Q08 to USD226,7 mln is explained by additional cash generated after passing the bond offer in July this year.

Cash flow

Third quarter Group operating cashflow amounted to –USD74,5 mln primarily due to decrease in accounts payable by USD54,5 mln.

Group investing activities yielded USD 27,7 mln positive cash consisting from proceeds of 37,4 mln from selling 43% shares of property fund, USD4,3 from paying off debts related to last year acquisitions, purchases of fixed assets of USD0,8mln, purchases of licenses of USD0,8 mln and USD3,8 mln costs related to previous disposal of non core assets.

Group financial activity on the third quarter resulted in –USD43 mln reflecting the decrease in total group financial debt.

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