



**OFFICIAL COMMENTS ON  
PHARMACY CHAIN 36.6 FY2007 AUDITED RESULTS**

by

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Ladies and Gentlemen,

During the full year 2007 the Group sales grew by 64.7% year on year and reached US\$ 871.1 million driven by rapid expansion of the retail unit to the regions and strong performance of pharmaceuticals production segment (Veropharm).

Veropharm has already reported its annual results on 17 June 2008, so I will focus on the retail segment which as Jere rightfully pointed out was the main reason for the negative figures we see on the EBIDTA and net profit levels.

Sales in the pharmacy retail chain totaled US\$ 673.4 million, representing a 74.3% growth as compared with 2006. Sales growth in retail segment was driven primarily by the strong performance of the pharmacies opened or acquired before January 1, 2007. The sales in the pharmacies opened or acquired before 01.01.07 (786 pharmacies) reached US\$ 582.2 million, which is 86.5% of total sales and a 51.5% increase year on year. The sales in the pharmacies opened or acquired after 01.01.07 (439 pharmacies) amounted US\$ 61.9 million, which is 9.2% of total sales.

A number of key acquisitions contributed to the overall sales growth. In 2007, Pharmacy Chain 36.6 acquired 26 pharmacy chains with a total of 293 pharmacies. The pro-forma revenues of the acquired pharmacy chains totaled USD 177.2 million.

The gross margin in the retail segment decreased to 25.4% from 29.1% in 2006 due to rapid regional expansion, ERP-related pricing issues in the Moscow region and increased competition.

As we consolidate newly acquired stores which are typically less marginal than branded stores, we see a decrease in margins on a consolidated level. In 2007 the acquisition of stores in the South of Russia and in Moscow made a significant change. All-in negative gross margin effect from consolidation of new stores is estimated around 2.2% (down to 27.2% from 29.4%), -1.6% in Moscow and -0.4% in the regions. The old stores in Moscow demonstrated 1.9% decrease in gross margin while regional stores showed 0.5% growth.

In addition, poor ERP system implementation in Moscow imposed difficulty for adjusting the prices according to market dynamics. Therefore given inflation in COGS our gross margin was put under pressure. We estimate that the above inefficiencies caused us about 1% decline in gross margins.

General and administrative expenses increased to 34.5% of retail sales compared to 31.7% in 2006 due to a 95% increase in rent (USD 63.6 mln) and 60% personnel related expenses (USD 82.0 mln) payments. The growth is primarily explained by regional rollout and organic openings in new locations. Additional costs came from increased logistics, professional and consultancy fees.

In Q4 the Group has posted charges of a one-off nature related to its retail operations USD 35.8 million in total, which consist of USD 7.3 million COGS adjustment which resulted primarily from system errors, USD 4 million are personnel related, USD 7.3 million professional services, USD 3.1 million inventory provisions, USD 2.2 million debtors and creditors balances corrections, USD 9.3 million financial costs and USD 2.6 million other expenses."

Consolidated EBITDA of the Group declined to -USD 7,0 million. Consolidated Group net loss amounted to -US\$ 99.4 million.

The Group's financial expenses increased to USD 36.9 million including interest expense in the amount of USD 27,7 million, bank charges – USD 1,2 million and USD 9,4 million of equity participation premium (as described below).

The Group's operating cash outflow amounted to 33.0 million.

The total investment in the retail segment in 2007 amounted USD 163 million, including USD 20.6 million were invested in opening of new pharmacies, USD 1.9 million in re-branding, USD 82.2 million in acquisition of regional pharmacy chains and USD 42.0 million in real estate acquisitions. [OTHER INVESTMENTS 16.6] Throughout 2007 the Company organically opened 166 pharmacies and re-branded 45 pharmacies.

In 2007, the total Group's financial debt as of the end of 2007 amounted USD 292.0 million (including debt of Veropharm USD 20.2 million).

Thank you.