OFFICIAL COMMENTS ON

PHARMACY CHAIN 36.6 FY2007 AUDITED RESULTS

by

JERE CALMES
President at Pharmacy Chain 36.6
CEO of the Management Company

Ladies and Gentlemen,

As we see from our press release issued earlier today, the results of our Group in 2007 are disappointing. The consolidated financial results are primarily driven by our retail business (Pharmacy Chain 36.6) and our pharmaceutical production unit (Veropharm). The negative trends registered in our gross profit margin, SG&A, EBITDA, and net profit are primarily attributed to the poor performance of our retail unit.

Let me walk you through some developments from the past year and provide our view on what happened in 2007 and what are we doing about it. The opportunity for pharmaceutical retailers in Russia remains enormous with expected annual growth rates of nearly 20% and we, therefore, must use 2008 as a year to get this part of our Company (the Retail segment) back on track.

Overview on 2007

In 2007 Pharmacy Chain 36.6 continued its rapid expansion across Russia allowing the Company to secure prime locations and expand our brand into the regions. Last year the retail chain grew 46% by store count and 65% in revenues. At the end of the year we had 1,225 pharmacies in 29 regions and 90 cities of Russia. In 2007, 95 million customers have chosen 36.6 for their pharmaceutical needs and, according to latest independent reviews (Pharmexpert), we have 6.6% market share as of Q1 2008.

Along with the rapid growth and market share gains, the chain has acquired some significant inefficiencies, that need to be addressed. They are:

1) Poor operational execution, including of the Company's core projects of centralized logistics/procurement and its associated ERP system implementation
2) Declining gross margins
3) Growing SG&A costs
4) A slower maturity profile of organic store openings

and

5) Growing finance and interest expenses

Starting in 2006 and continuing through 2007, a chain of events has presented the Company with tough challenges. Without going into too much detail, disruption in the Company's warehouses in late 2006, poor implementation of key logistics, inventory management, and financial systems in 2007 coupled with integration issues of some newly acquired Companies, a growing competitive environment and a deteriorating credit market led to a 'vicious circle' for the Company's operations and financial position.

The Company experienced extremely high level stock outs (up to 50% of its assortment), pricing irregularities, and higher inventories of low-turnover goods in its key Moscow market. This resulted in a decrease of sales and profitability in the Moscow business unit, a vital unit for free cash flow generation and funding of expansion activities.

The results speak for themselves. In 2007, the 20.2% L-F-L growth number was noticeably weighted down due to the 5.8% result in the Moscow business unit – in ruble terms this means the numbers in Moscow were actually negative. Our gross margin decline, although also attributed to the growing consolidation of lower-margin regional operations and the Yekaterinburg wholesale operation, dropped to 25.4% as Moscow dropped 1.6 points to 32.9 % for the entire year and to 31.2% in the 4th quarter.

Unfortunately, some of these trends continued into the first quarter of 2008. The good news is that these issues can and are being rectified. In March, we highlighted our immediate priorities to address the situation:

1. Turn around the Moscow operations
2. Address the poorer performing regions
3. Decrease G&A expenses
4. Ensure progress in the centralized procurement and logistics' implementation
5. Address the debt/financing situation

But allow me to come back to the more specific actions after we complete our look at the 2007 numbers.

In 2007, Veropharm had a very successful year and demonstrated strong financial performance on the back of growing demand for oncology drugs, successful participation in the FRP program and launching into production of original Rx drugs like Ekzorum and Cerepro.

Although divested in May of this year, the European Medical Center performed to our expectations in 2007 with more than 57'000 admissions and more than 25'000 customers. It surpassed its revenue and profit targets which reached USD 25.9 million and 2.7 million US dollars respectively.

And finally, our Early Learning Center project, which opened its first store in late 2006, managed to open 6 new stores during 2007 and grew sales to 3 million US Dollars.

Now I would like to give the floor to the Company's new CFO, Dmitry Anisimov who will walk us through our 2007 financials in greater detail. Dmitry.....

Strategy

As stated before our short term strategy is to focus on improving our operational efficiency, managing the Company's debt burden and restructuring for strong and profitable future growth. We will aim to make 2008 a turning point for the company at the EBITDA level and rebuild confidence in our Retail operations.

Allow me to briefly address, in a bit more detail, each of our short term priorities:

Re: the Turn around of the Moscow operations

Some of the negative tendencies from 2007, in particular Gross Margin performance and stagnant sales growth in comparable stores, have been carried forward into the beginning of 2008. However, we are beginning to see signs of recovery now in terms of customer traffic, average check, and gross margin.

We have completed a re-organization of the Moscow-Central Business Unit and on July 14th, Alexey Skripnikov, the former Managing Director of Stary Lekar, will take over the Director role of the business unit and be tasked with carrying out the turn-around that has already been initiated.

With the systems issues behind us, we will now focus on improving our logistics operations, increasing productivity as well as staff in our stores, optimizing our store assortment, including growing our Private Label, and further address the SG&A and inventory inefficiencies.

As for our poorer performing regions

In March of 2007, we identified Ekaterinburg, Perm and St. Petersburg as areas requiring immediate improvement. We have changed the regional heads for both Ekaterinburg and Perm and are making progress on our plans to turn these high potential, but loss making regions profitable by year end. In May we have closed our loss making wholesale business in Ekaterinburg and in St. Petersburg, we have decided to close four loss making stores.

As for the progress in the centralized procurement and logistics process

Again, with the key systems now fixed, our focus turns to the operational management of the nationwide logistics organization, expanding our private label and exclusive assortments, and executing the direct-to-manufacturer strategy. These activities comprise our 'Centralized Assortment Strategy' and should provide an uplift to the Company's gross margins while winning customer loyalty.

At the end of 2007, the Company's logistics system included one NDC and 12 regional distribution centers. Only 4% of our overall turnover came from this Centralized Assortment, which included Private Label goods, representing 1.8% of sales in Q4. Although we continue to address some hiccups in the distribution chain, the percentage of turnover from our Centralized Assortment has grown to 30% in the last few months.

We are beginning to see improvements in the sale of our private label offering and our portfolio has now grown to more than 500 SKU's.

Re: the decrease in G&A expenses

The retail segments SG&A to revenues grew to 34.5% in 2007 and has become a primary focus for the management team. In early 2008, we have reduced the number of headcount at the Management Company headquarters by over 25% and have closed a number of loss-making stores, however this is only the beginning.

Going forward, the Company will seek to engage in longer-term rental agreements, outsource and consolidate certain operations to lower expense regions, and continue integrating acquired companies to find additional synergies in head count and economies of scale.

Addressing our debt and financing situation

We are well underway to implementing our previously announced funding program and, on May 12, we announced the complete sale of our Healthcare business unit, which included European Medical Center, for an Enterprise Value of USD 110 million. On July 3, – we fully met our obligations on the (Series 1) bond put option and we have made significant progress on the sale of 49% of our closed-end real estate fund.

The proceeds of our fundraising activity are going to repay and refinance our debt and invest in our current operations.

In Conclusion, the operational challenges of our Retail segment and the financing issues of the Group require and are receiving immediate attention. We will continue to strengthen our management team in order to address these challenges and take advantage of the great opportunities that lie ahead. The key focus for 2008 will be to rebuild your confidence and deliver significant financial improvements. I am very confident that we will see our Company through this challenging period and look forward to getting ourselves back on track in our quest to dominate the Russian health and beauty retail market.

Thank you.