OFFICIAL COMMENTS ON PHARMACY CHAIN 36.6
1H2008 AUDITED RESULTS

by

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During the first half of 2008 the Group sales grew by 43% year on year and reached US$ 558.8 million driven by growth of the retail unit and strong performance of pharmaceuticals production segment (Veropharm). We increased the number of pharmacies from 936 at the end of 1H 2007 to 1192 in 1H2008 which is a 27.4% growth.

Veropharm has already reported its results on 14.08.08, so I will focus on the retail segment which represents 80% of the consolidated Group's revenue.

Sales in the pharmacy retail chain totaled US$ 448.2 million, representing a 47.9 % growth as compared with first half of 2007. Sales growth in retail segment was driven primarily by the strong performance of the pharmacies opened or acquired before July 1, 2007 and accounted for 21% of total growth. M&A activity (pharmacies acquired after July 1, 2007) represent 18% of total sales growth, organic openings stand for 8%, pharmacies rebranded or reformatted before 01.07.07 – made 1%. The decrease of sales from US$ 230,1 in Q1 to US$ 218,1 in Q2 2008 is attributable primarily to seasonal factors and a reduction of store count.

The gross margin in the retail segment decreased to 25.6% from 27.5% in first half 2007 due to lower gross margins in Moscow Central BU, higher proportion of regional sales and increasing competition. It is important to recognize the increase in gross margin from 25.2% in Q1 this year to 26.0% in Q2 which resulted from growth of the private label program and price increases in Moscow.

Sales, general and administrative expenses reached US$ 144.1 million in 1H 2008 (32.2% of sales) with key items represented by personnel costs (US$ 57.9 million) and rent (US$ 44.0 million), up 73% and 69% respectively as compared to 1H 2007. The increases include consolidation effect from store openings and aggressive acquisitions in 2007. As Jere already mentioned in absolute terms SG&A expense in Q2 was US$ 3.5 million less than in Q1.

Consolidated EBITDA of the Group amounted to US$ 9.7 million.

Consolidated Group net loss amounted to US$ 8.1 million. This was a result of asset disposal and strong performance of production unit OJSC “Veropharm”.

The Group’s financial expenses were US$ 20.7 million including interest expense in the amount of US$ 21.6 million, and interest income – US$ 0.9.

In 1H 2008 the Group cash inflow from operational activity totaled US$ 60 million as the retail segment accumulated cash to meet short term obligations. US$ 9.1 million was spent on repayment of obligations related to M&A activities in late 2007, US$ 6 million on purchase of plant, property and equipment. The Group posted US$ 111,1 million cash inflow from disposal of assets, to bring net cash inflow from investing activities up to US$ 95,6 million as compared to outflow of US$ 41 million the year before. Net cash outflow from financial activities totaled US$ 63 million to bring the cash balance at the end of 1H 2008 to US$ 128.3 million.

As of the end of 1H 2008, the Group’s total debt decreased to US$ 242.4 million from US$ 292 million at the beginning of the year, including total debt of Veropharm US$ 18.2 million.