



PHARMACY CHAIN 36.6 FY2008 AUDITED RESULTS

SCRIPT FOR CONFERENCE CALL

DMITRY ANISIMOV
CFO Pharmacy Chain 36,6

Good afternoon, Ladies and Gentlemen!

Veropharm has already reported its annual results on Wednesday, April 22nd, so I will focus on the retail segment which represents 80% of consolidated Group's revenue.

Let me start with a restatement of 2007 accounts which we published earlier today.

In 2008 management performed a thorough review of its debtors and creditors' ledgers as well as reconciliations of certain other accounts including VAT and inventory. The results of such review have led the Group's management to conclude that recoverability of certain types of its assets was not properly analyzed in the year ended 31 December 2007 and the appropriate allowances were not properly recorded in the consolidated financial statements. In addition, various accounts were not properly reconciled in the prior year.

As a result, the consolidated financial statements for the year ended 31 December 2007 have been restated from the amounts previously reported. All changes have been posted to Q4 2007. The changes of the numbers relate only to the retail segment. Cost of Goods sold have been increased by USD13 mln, SG&A expenses have been increased by USD10.7 mln and profit tax charge has been decreased by USD1.8 mln.

Due to the restatement of 2007 financials q-to-q comparisons for q4 are difficult as changes to 2007 financial results were charged to q4 2007.

Revenue

As compared to the relative period the year before, in 2008 sales of the retail unit grew by 24.9 %. and reached US\$ 841.3 million which includes the effect from organic opening activity of 2.5%.

Gross margin

The retail operations posted a gross margin increase from 23.5% in 2007 to 28.1% in 2008 as improvements in private label penetration, centralized purchasing and pricing management took effect. Gross margin in Q4 2008 has improved to 30.6% on the back of private label growth, better pricing management and assortment optimization.

The increase of Gross Margin is mostly attributable to the significant progress in Moscow region which accounts for almost 40% of the total Retail network revenue. Year on year gross margin has increased from 33% to 34%.

Our Private label products have also positively contributed to this increase. For the full 2008 Private Label revenue accounts for 4.5% of total retail revenue and it's gross margin accounts for 9.5% of the total gross margin of the retail segment. In Q4 private label share of revenue has climbed to 6% with gross margin reaching 63.6%.

SG&A

Selling, general and administrative expenses increased to USD 273.4 mln in 2008 from to USD 250.0 mln in 2007. Key items are represented by personnel costs USD 117.7 mln of which approx. USD 3 mln relates to redundancy costs and rent (USD 80.1 mln), up 26.3% and 25.9% respectively as compared to 2007. As a percentage of revenue SG&A expenses decreased from 37.1% down to 32.5%. Other SG&A costs have reduced from USD 94.9 mln down to USD75.6 mln driven by reductions in professional services and logistics.

In Q4 2008 SG&A expenses amounted to USD 61.3 mln. This represents a reduction by USD 6.7 mln versus Q3. 2008 continuing the positive trends from the first quarter of this year. Q-on-Q costs reduction resulted from continued Management focus on streamlining the retail operations through closing non-performing stores, optimizing store level headcount, rationalizing its logistics infrastructure, further reduction of administrative personnel coupled with positive exchange rate effect.

EBITDA

Retail EBITDA in Q4 reached -USD 850 thousand. 2H 2008 EBITDA of -USD 0.4 mln demonstrates the significant improvement over 1H2008 of -USD21.3 mln.

Group consolidated 2008 full year EBITDA reached 33.2 what is materially different from - USD30.7 mln. a year ago. Retail EBITDA improved from -USD78.8 to -US21.5. Veropharm EBITDA grew from USD42.5 mln to USD52.7 mln.

Net Profit

Net loss decreased by 53.5% to USD 56.4 mln from USD 121.3 mln in 2007.

Underlying Net loss which excludes goodwill impairment charge as well as gains on sale of investment, disposal of discontinued operations and foreign exchange revaluation decreased from 115.6 in 2007 to USD 66.6 mln in 2008, a 42.4% improvement y-o-y. The reduction of losses was achieved through solid performance of manufacturing unit, reduced losses in retail segment.

Financial Costs

Regardless of reduction in the Group's financial debt, quarterly financial costs remained almost flat at USD 13.6 mln in Q4, 2008 versus USD 14 mln in Q4, 2007. On a full year basis, the Group's financial costs grew by 16.5% to USD 43.4 mln as a result of increased cost of debt servicing and additional expenses related to Glazar joint venture, created in 2007. The majority of 2008 financial costs are represented by USD10.8 mln related to servicing Rbl bonds and USD14.1 mln related to Glazar joint venture.

Group 2008 foreign currency loss amounted to USD 16.9 mln compared with USD 4.0 mln loss in 2007 of which USD 9.7 mln relates to Q4 2008 as a result of the weakening of the ruble against the dollar. The majority of foreign currency exchange loss relates to USD denominated loans in total of USD63.4 mln.

Financial Debt

As of the end of 2008, the Group's financial debt decreased to USD 149.4 mln from USD 292 mln the year before. The debt reduction has been achieved through reduction of inventory levels, usage of operating cash flows, exchange rate effect, profitable sale of the European Medical Center and disposal a portion of property fund.

Retail debt has moved from USD271,8 mln at the beginning of the year to USD 128 mln at the end of 2008. The debt reduction has been financed through operating cash flows and proceeds from non-core asset disposals.

As of the end of 2008 retail financial debt is 59% rouble denominated and 41% is in USD. 80% of the financial debt is short term and 20% is long term.

Accounts payable

Accounts payable increased to USD 192.9 mln at the end of Q4, 2008 as compared to USD 179.7 mln 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. In Q4 2008 accounts payable decreased by USD 33.8 mln from USD 226.7 mln at the end of Q3 2008. Accounts payable decrease in Q4 is primarily attributable to exchange rate effect.

Cash flow and Investments

Group 2008 operating cashflow amounted to USD 12.8 mln.

The group has invested USD27 mln of which USD5.1 relates to modernization of Veropharm production base and USD12.8 mln in paying off obligations related to acquisitions of regional pharmacy chains back in 2007. Cash inflow from disposal activities consisted of USD2.5 mln proceeds from sale of equipment, USD35.5 net proceeds from disposal of 43% stake in property plant as well as USD107 mln proceeds from disposal of medical services business.

Cash flow from financing activities resulted in total outflow of USD132.6 mln which consists of proceeds from borrowings of 248.3 mln, repayment of borrowings of USD378.4 and distribution of investment income of property fund of USD2.5 mln.