



**OFFICIAL COMMENTS ON PHARMACY CHAIN 36.6
1H2008 AUDITED RESULTS**

by

JERE CALMES
CEO at Pharmacy Chain 36.6

When we last spoke, I had indicated the major challenges that face 36.6 in regards to increasing the performance of the retail segment and addressing the Company's liquidity. Our management team has been tasked and is diligently working to resolve these issues and, as I said, we could expect to see some improvements in the financials during Q3, and more significant improvements in Q4 of this year.

Today, I'd like to update you on the actions and developments in the first half of 2008, including the status of each of our short term priorities geared to optimize the business and keep it positioned for growth.

Our retail business (Pharmacy Chain 36.6) and our pharmaceutical production unit (Veropharm) continue to drive the consolidated financial results and demonstrated a healthy y-o-y growth rate of 48% and 45% respectively.

Veropharm

Veropharm continues to demonstrate strong financial performance on the back of the growing demand for and launching into production of new prescription drugs. During H1 2008 Veropharm commenced selling 6 new generic drugs that were well received. We continue to be pleased with the financial performance of the unit and specifically the significant increase in the gross margins and strong performance at the Net After Tax level.

Non-core

In regard to our non-core businesses, we have successfully and fully divested the European Medical Center in May of this year. The sale brought net proceeds to our Company of \$106.5 million dollars and we booked a profit of US\$35 million in the second quarter of this year.

Our 50% owned Early Learning Center project continued to exhibit solid performance at the store level and increased its revenues nearly 130% over the same period last year.

We had 10 ELC stores at the end of Q2 and we continue to grow this project vigilantly. The project does not require 36.6 to invest additional cash for 2008 and 2009.

And now focusing on our Retail unit:

According to Pharmexpert, the market for pharmaceuticals remained robust in the first H1 of 2008 and grew by 36.4%, although Pharmexpert recently changed its methodology for measuring market share, Pharmacy Chain 36.6 kept its considerable lead among pharmaceutical retailers with 5.14%, or nearly 2x our next biggest rival. DSM Group, another independent pharmaceutical analysis Group estimated our market share at 6.4%.

During the first 6 months of 2008, we closed 71 and organically opened 38 pharmacies. The trend of closing more stores than we open has continued into the first months of Q3 and is expected to continue throughout the remainder of this year as we weed out non-profitable and underperforming stores. As of the end of the second quarter, Pharmacy Chain 36.6 operated 1 192 stores in 29 regions of Russia.

We transacted 53 million purchases in the first half of 2008, which is 14% higher than in the comparable period of 2007. However y-o-y traffic decline in comparable stores is a subject that warrants our attention. The traffic decline trend of the last few years in comparable stores has been driven by increased competition, own store cannibalization, insufficient certified store personnel, and as of recently, higher levels of stock outs. We are focusing a large part of our management efforts to improve the traffic performance of existing stores and have launched new store-level motivation schemes, are conducting a detailed review of our prescription and OTC assortments, and are stepping up our nationwide marketing efforts.

The average check continues to grow and is offsetting the traffic decline. The average check for the first half was \$8.6 dollar, or a 18.6% rise over the same period last year. This increase can be attributed to a 7.7% price increase and 10.9% increase in basket of goods sold.

As discussed on our last conference call, the gross margin of our retail unit is also staging a healthy recovery and grew to 26% in Q2 versus 25.3% in Q1. Our efforts to rectify the pricing irregularities in the Moscow market, increase the sales of our higher-margin centralized assortment, including the private label offering, and close our loss-making wholesale operation in Ekaterinburg is supporting this recovery and we expect the upward trend to continue.

As we did on our July 11th conference call, allow me to briefly address, in a bit more detail, the progress in each of our short term priorities:

Re: the Turn around of the Moscow operations

Moscow bottomed out in Q1 of 2008 and posted a small, yet positive contribution margin in the second quarter. This was the first positive operating margin for the BU since June, 2007. Second quarter, 2008 gross margins in Moscow increased significantly

over Q1 and by June were reaching the levels of last year due to improved retail pricing, reduced input prices, and an increase in the sale of our private label goods.

Focused marketing activity, like our VITIMINIZATSIYA campaign and "OSTATKI SLADKI" private label promotion, improved client traffic trends.

We published the results of comparable stores for our Moscow operation in our press release earlier today to give a better picture of the dynamics of this turnaround. The unbalanced performance of SG&A growth to being addressed through an innovative, performance-based, store-level motivation scheme that was successfully piloted in May as well as through a streamlining of the business unit administrative expenses.

We did continue to uncover some inefficiencies in the Moscow operation during the first half, in particular with our inventories at both the store and supply chain levels. We have taken remedial actions to rectify the situation, however we were forced to increase our provision for lost goods which is represented in our Q2 financial results.

As for our poorer performing regions

We are on track with our plan to bring St. Petersburg and Ekaterinburg operations to break even by year end. Perm continues to feel the pressures of growing competition as well as difficulties with integration of the acquired pharmacies.

Like Moscow, the focus in these and most of our other regions turns to improving upon the trends of customer transactions and average check in comparable stores, increasing productivity at the store level and utilizing our centralized assortment to win customer loyalty and increase gross margins.

In the area of Centralized Procurement and Logistic.....

Here the company is doing much better. The service levels in our national and regional distribution centers have improved over last year and Q1. With the key systems now stable and a steady flow of goods, we have been able to increase the percentage of sales of our centralized assortment to 33%, including 4% of our high-margin, private label goods. This is resulting in improved gross margins while keeping our retail prices at a competitive level.

In addition to nationwide agreements with leading distributors, we have now signed contracts with major producers representing roughly 12.4% of the retail segment's sales with an average reduction in purchasing prices of roughly 9.2%. And as of June 30'07 our private label portfolio reached 575 SKU's.

In terms of our focus on reducing G&A expenses.....

Our press release shows that we have reduced SG&A expense in the retail unit in absolute terms in Q2 versus Q1 by \$3.5 million dollars on the back of store closings and reduced administrative expenses. Our headcount in the retail segment at the end of the first half is 732 less than at the beginning of the year as we continue to streamline regional offices and organizational structures. We also successfully launched our

centralized shared services center in Voronezh in the second quarter and continue to outsource and consolidate more corporate activities to this center.

And finally a word about our debt and financing situation

As of the end of July, we have refinanced or retired 250 mln of the 271 million of financial debt due by the retail business in 2008. We also continue to work closely with our partners and vendors to improve the commercial and credit terms for our purchased goods. To mitigate the risks of untenable commercial terms from some vendors in the coming months, we will continue to squeeze more cash from our current operations through a targeted focus on reducing current stocks and optimizing our assortment plan.

It is now our key priority to secure a long term funding solution for our retail business and the management and Board of Directors continue to consider the Company's options in this regard.

In Conclusion I'd like to say that while I'm extremely confident that the measures we are taking will show significant improvements in our Company's, and more specifically our retail unit's, performance in 2008 and beyond, the current environment remains extraordinarily challenging. Although the management of the retail unit has not given up on its objective to generate a cumulatively positive EBITDA for 2008, it is unlikely that expected improvements of the third and fourth quarters will recover all the EBITDA losses of the first six months.