



PHARMACY CHAIN 36.6 Q4 and FULL YEAR 2008 IFRS RESULTS

SCRIPT FOR CONFERENCE CALL

JERE CALMES
CEO Pharmacy Chain 36.6

Dear Ladies and Gentlemen!

Allow me to start this call by saying that I'm pleased to be presenting our full year audited results to you in April rather than July, as was the case last year. Improving our financial reporting is one of the important achievements made during the course of 2008; it has also resulted in a restatement of our financial accounts for 2007, the details of which we reported in a press release earlier today.

As previously discussed, the task of our management team has been addressing the challenges facing 36.6 in regards to improving the performance of the retail segment and Group's liquidity. The on set of this unprecedented global economic decline has made this task extraordinarily difficult. And although there have been some notable achievements manifesting themselves in our 2008 results, the environment remains exceptionally challenging.

Today I'd like to briefly touch upon our 2008 achievements, operational and financial indicators, current market trends as well as address some of the more pronounced issues facing our Company.

As you can see from our press release published earlier today, year over year operational and financial performance improved significantly. The improvements in our retail operations coupled with the strong performance of our manufacturing arm delivered a positive \$67 million dollar swing at the EBITDA level and returned the Group to a positive EBITDA for 2008.

Nevertheless, the Company continues to generate losses at the Net Profit level driven primarily by the Group's retail unit and high financing costs. Although Mr. Anisimov, the Group's CFO, will address these points in more detail our underlying net loss declined by 42% in 2008.

Veropharm continued to demonstrate strong financial performance in 2008 increasing its Net Profit by 33% on the back of strong results in its core Rx (prescription) division. Although the economic headwinds and ruble devaluation depressed sales in Q4 as well as Q1 of 2009, Veropharm's management remains focused on further product

introductions, optimizing operations and taking advantage of their unique position as a leading local producer of generic drugs in Russia.

Our 50% owned Early Learning Center project delivered a small, but positive net profit for the full year. Seasonal demand and store openings helped fourth quarter sales and year over year revenue increased by 78%. Macro economic conditions depressed Q1 sales and LFL sales fell 7% in dollar terms. Management is implementing contingency plans to manage costs down in line with the drop in demand. The project has no external financial debt and has sufficient cash to weather this current downturn and seek opportunities for future growth.

And now I'd like to focus on our pharmaceutical Retail Unit in a bit more detail:

We did not deliver a positive EBITDA in our retail unit in the fourth quarter as declining revenues caused primarily by dropping client traffic and irregular pricing and delivery from wholesalers outpaced our ability to cut costs and find alternative suppliers. It is important to note that the majority of our full year EBITDA loss came in the first two quarters of 2008 and the exceedingly large losses from previous periods has been stopped.

There are other healthy signs of recovery in our retail business, but as I've already mentioned, the current environment has created a number of exceptional challenges including - keeping our stores properly stocked and input prices (or Cost of Goods Sold) competitive.

We have not seen tangible signs of the banking crises dissipating and access to funding is either non-existent or prohibitively expensive. The rising value of the dollar and Euro against the ruble has caused significant price appreciation for the imported goods we sell and job losses across the country are affecting consumer demand, especially in regions outside of Moscow. Our management team has acted quickly to address the issues brought on by these difficult times and has made progress in improving the unit's operational efficiency.

We have closed 233 non performing stores in 2008 and Q1, 2009 bringing our net number of pharmacies in operation to 1 084. Moving forward, we will continue to focus on improving store profitability and closing non-performing stores using the current environment to extract better rental terms and conditions. Until we have adequately resolved the Group's liquidity, we have virtually suspended investments into new store openings and will therefore continue to see a declining store count through 2009.

We have made substantial progress in controlling our costs and have reduced our SG&A expenses in absolute terms for every quarter of 2008 resulting in an impressive 5 percentage point improvement versus last year of SG&A as a percentage of revenue.

We have accelerated staff reductions in the fourth quarter of 2008 and continued in the first quarter of this year reducing our total headcount by 23% from January of 2008, with over 35% of the reductions coming from administration and logistics. Going forward, we will continue to reduce our operating costs.

We posted a sizeable 4.5 percentage point increase to our annualized gross margin as the problems of the Moscow operating unit were fully rectified by June of '08, our private label offering gained market share, and we started to achieve better pricing and credits from suppliers and manufacturers.

However, our fourth quarter gross margin fell slightly versus the third quarter as disruptions with suppliers led to increased input prices and we were forced to balance this with the retail prices of our competitors. We saw these trends continue and even become more acute in the first quarter of this year which also resulted in further declines of customer traffic.

Nevertheless, we reiterate our gross margin guidance of 27-29 percent as the management is actively pursuing direct contracts with major suppliers, engaging national distributors, and focusing on our Private Label offering. We have recently announced deals for direct deliveries with Pharmstandard, the leading manufacturer of OTC products in Russia and resolved our dispute with Apteka Holding, the 4th largest national distributor

Group Debt

Allow me now to address the Group's debt situation. As you know, refinancing our short-term obligations and finding a long-term solution was a key priority for 2008. We succeeded in refinancing 100% of our obligations last year and reduced the Group's debt by nearly 50% on the back of asset sales and operating cash flow.

In the current environment, the reduction of our debt has not resulted in a decrease of our financial expenses as debt servicing costs have risen dramatically and our financial expenses associated with certain loans and our Glazar joint venture are dollar denominated.

With our Board of Directors, we have initiated a number of actions to address the Company's funding needs, the actions include an additional share issuance, a closed-end Bond offering, and we continue to work closely with our banks and financial institutions to find workable solutions during these turbulent economic times. It is our key priority to secure a long term funding solution for our retail business and the management and Board of Directors continue to pursue all available options in this regard.

To conclude I would like to point out that it is clear from our results that 2008 was a transition year for Pharmacy Chain 36.6. The Group re-focused its energies on its leading retail business and stopped the losses from previous periods at the EBITDA level. We made progress in reducing the underlying net loss and cut the Group's debt. In conclusion I'd like to say that Pharmacy Chain 36.6, its management and Board of Directors, are working to improve the overall health of our Company and, most importantly, finding a solution to our funding. As we move further into these tenuous times our focus will remain on optimizing current operations, rigorously attacking costs, and providing our customers with the products and services they need.