

RUSSIA – A BOOMING CONSUMER SPENDING MARKET

Good morning Ladies and Gentlemen!

It is my great pleasure to be at this discussion panel today, and I thank the organizers, Troika, for the opportunity to speak.

I took over the President position at Pharmacy Chain 36,6 late last year, and I can say that the excitement during my first two months has managed to exceed my boldest expectations.

One of the advantages I bring with me to this new job is that I have lived and worked in Russia for over a decade, and I am a strong supporter and believer in this country and what it has to offer. Russia's sheer scale and tremendous upside potential are very attractive qualities. Since the Iron Curtain has fallen, in the post-Soviet era and through all the dramatic ups and downs that the markets have experienced, Russia has been able to and, amazingly, continues to provide us with exciting business opportunities not found anywhere else in the world. Even outside the traditional Russian stalwarts of oil, gas and other commodities, we have witnessed multi-billion, multi-national companies grown from scratch in telecommunications, retail, insurance, banking and other industries. This trend is set to continue. Combined with its rich historical and cultural heritage, Russia is truly an intriguing place to be.

We at Pharmacy Chain 36,6 strongly believe in Russia and its growing consumer market potential. We see ourselves uniquely positioned to leverage on this development and build a strong and admirable company.

There are three main factors driving this optimism: 1) macroeconomic drivers; 2) the development of the pharmaceutical sector; and 3) the nature of the Russian consumer. As has already been mentioned, due to a prolonged period of high oil and commodity prices, Russia's economy has strengthened, and we see support for the development of growing businesses.

According to data published by the Ministry of Economic Development and Trade, Russia's economy has grown at, or above, an estimated 7% per year for the last 7 years. The overall capitalization of publicly traded companies in the consumer sector is reaching 40 bln USD. And Russia's 140 million people continue to increase their real disposable incomes as nominal GDP continue to grow. In the pharmaceutical sector, based on data from Pharmexpert, we see that the industry has grown to 11 bln USD in 2007, and is expected to nearly double in 2011.

This impressive growth is being driven by the need for more pharmaceuticals for an aging population, higher-quality and more expensive drugs, and increasing state involvement. Increases in spending on pharmaceuticals from the state budget through the federal reimbursement program and through government purchases for hospitals and other state-controlled institutions has provided additional support for the rapid market growth of the pharmaceutical sector.

It is against this backdrop of strong economic fundamentals and rapid sector growth that Russia continues to be among the world's best places to develop high-growth businesses, especially in the consumer sector.

Furthermore, if we take into consideration the continuing spreads between Russia and the rest of the World with regard to key parameters of 36.6's sector, we see that the positive trends are set to continue into the future. For example, per capita spending on health and beauty products in Russia was estimated at only at \$75 YE2006 and \$80 YE2007. This compares to over \$200 in Eastern Europe and up to \$700 in the US. In Russia, one pharmacy covers roughly 2500 customers, while in the UK that number drops to 1200 customers per pharmacy.

The final reason for our optimism on building businesses in the largest consumer market of Europe is the Russian customer herself. Russian customers have a remarkable, perhaps unparalleled, propensity to spend. In my early years working in Russia, I observed friends, relatives, and colleagues spend their first paychecks – and they wouldn't hold back. Quality products, expensive products, branded products. These are very important to the Russian consumer.

Many people who were here in the early 90's will remember how kiosks sold a single Marlboro cigarette in place of a pack of the domestic brand. According to Nielsen research (Online Global Omnibus 2007), 71% of the Russian population is ready to spend their money on new clothing, and 44% on new technology, while only 3% are ready to invest in equity and 9% in pension funds.

This propensity to spend is a powerful force behind the retail sector growth across the country. It is not a Moscow phenomenon. If you go to Novosibirsk or Ufa, you will see the same trends.

All of the aforementioned factors — macroeconomic fundamentals, growth in the pharmaceutical sector, and the nature of the Russian consumer — create a unique opportunity for the continued development of our businesses, and especially of the retail arm, in Russia. Like many of our industry peers, we at Pharmacy Chain 36,6 feel that now is the moment to grow our company's market share, gain the trust and loyalty of millions of consumers, and focus on delivering all of this in a profitable way.

Our model calls for serving our customer base through our open-format stores - driving traffic through the sale of high-quality, competitively priced drugs, and increasing our sales through add-on and higher-margin parapharmaceutical sales. We aim to satisfy the growing appetite and capabilities of the Russian consumer.

There are risks and challenges to building these businesses, and they are pretty much aligned with any retailer.

Due to the incredible plethora of opportunities, there is the risk of expanding too fast — here, better focus and discipline to profitable growth is required. We see increasing operational costs, driven primarily by salaries and rents, putting pressure on margins — here, being more efficient and selective in our regions of growth and extracting economies of scale are required.

Due to the US-led credit crises, access to capital will become more difficult — here, a focus on strengthening the balance sheet and tempering growth could be mitigating strategies.

Finally, although the State is doing a good job in helping to grow the pharmaceutical sector with their state-sponsored programs, proposed limits and city regulation of the retail market share would be a negative development for our market.

However, on the whole, Russia has been a great place to be for the last ten years. Given the current dynamics and power of the largest consumer market in Europe, Russia will remain a good place to be for the next ten.

Thank you for your attention. Please do not hesitate to ask questions or raise your opinions during our discussion.