

OJSC "PHARMACY CHAIN 36.6" REPORTS Q2 AND 1H 2010 UNAUDITED IFRS RESULTS

GROUP EBITDA UP RUR 29.9 MLN. IN 1H 2010 VERSUS 1H 2009

December 9, 2010, MOSCOW – OJSC Pharmacy Chain 36.6 [RTS:APTK;MICEX:RU14APTK1007] the leading Russian pharmaceutical retailer announces unaudited Q2 and 1H 2010 financial results prepared in accordance with the International Financial Reporting Standards (IFRS).

GROUP HIGHLIGHTS OF Q2 AND 1H 2010:

- Consolidated EBITDA from ongoing operations increased by 29.9 million rubles in 1H 2010 versus 1H 2009 and reached RUR 853.6 mln., a 3.6.% improvement;
- Consolidated EBITDA from ongoing operations increased by 28.0 million rubles in Q2 2010 versus Q2 2009 and reached RUR 639.9 mln., a 4.6.% improvement;
- Group revenue from ongoing operations decreased by 6.8% to RUR 5 212.3 mln in Q2 2010 versus Q2 2009;
- Gross profit from ongoing operations in Q2 2010 decreased by 4.5% to RUR 2 258.2 mln from RUR 2 365.5 mln in the relative period of 2009;
- Gross profit margin improved by 3.3% from 38.8% to 42.1% in 1H 2010 versus 1H 2009.
- Underlying Net loss from ongoing operations (excluding foreign exchange effect) decreased from RUR 155.5 mln in Q2 2009 to RUR 131.5 mln. in Q2 2010, a 15.4% improvement;
- Group Net Loss decreased from RUR 601.8 mln in 1H 2009 to RUR 546.3 mln in 1H 2010, a 9.2% improvement.
- The retail unit organically opened 4 and closed 9 stores in Q2 2010; ELC unit opened 5 new stores within the same period.

Group consolidated financial results

	period ends					
	Q2, mln RUR			1H, mln RUR		
	2010	2009	ch, %	2010	2009	ch, %
Revenue	5 212,3	5 592,8	-6,80%	9 749,4	11 456,8	-14,9%
<i>Retail¹</i>	3 309,4	4 045,1	-18,2%	6 725,6	8 837,6	-23,9%
<i>Corporate Center</i>	0,0	0,0		0,0	0,0	
<i>Veropharm</i>	1 710,2	1 387,2	23,3%	2 673,2	2 300,1	16,2%
<i>other²</i>	192,7	160,5	20,1%	350,6	319,1	9,9%
Gross profit	2 258,2	2 365,5	-4,5%	4 107,20	4 446,2	-7,6%
<i>Retail</i>	941,1	1 326,9	-29,1%	2 042,70	2 777,4	-26,5%
<i>% of sales</i>	28,4 %	32,8%		30,4%	31,4%	
<i>Corporate Center</i>	0,0	0,0		0,0	0,0	
<i>Veropharm</i>	1 258,1	992,1	26,8%	1 959,8	1 582,4	23,8%
<i>% of sales</i>	73,6%	71,5%		73,3%	68,8%	
<i>other</i>	59	46,5	26,9%	104,7	86,4	21,2%
EBITDA	639,9	611,9	4,6%	853,6	823,7	3,6%

¹ Hereinafter in the press- release the retail unit financial results are presented separately from the financial results of the Corporate Center, which was included in the Retail Unit financials in Q2 2009 and 1H 2009, announced in 2009. In the present press- release the retail unit financial results of Q2 2010 and 1H 2010 are compared with the relative results (i.e. separately from the financial results of the Corporate Center) of Q2 2009, 1H 2009 and Q1 2010.

² «Other» revenue equals to non- core business revenue eliminated by the transfer sales within the Company units, which are as follows: in Q2 2009 – RUR 34. 2 mln.; in Q2 2010 – RUR 1.4 mln.; in 1H 2009 – RUR 46.3 mln.; in 1H 2010 – RUR 13.9 mln.

<i>Retail</i>	-46,7	114,2	-140,9%	-2,1	178,3	-101,2%
<i>% of sales</i>	-1,4	2,8%		-0,03%	2,0%	
<i>Corporate Center</i>	-37,0	-68,9	-46,3%	-58,3	-94,6	-38,4 %
<i>% of sales</i>	0,0	0,0		0,0	0,0	
<i>Veropharm</i>	719,0	563,0	27,7%	917,70	759,1	20,9%
<i>% of sales</i>	42,0 %	40,6%		34,3%	33,0%	
<i>other</i>	4,6	3,6	27,8%	-3,6	-19,1	-81,2%
Net profit	-384,3	46,7	-922,9%	-546,3	-601,8	-9,2%
<i>Retail</i>	-399,0	-208,3	91,6%	-649,5	-429,4	51,3%
<i>Corporate Center</i>	-594,9	-215,9	175,5%	-616,1	-751,1	-18,0%
<i>Veropharm</i>	608,2	468,2	29,9%	729,4	598,8	21,8%
<i>other</i>	1,4	2,7	-48,1%	-10,1	-20,1	-49,8%

RETAIL UNIT:

REVENUE

As compared to the relative period the year before, Q2 2010 sales of the retail unit decreased by 18.2% in ruble terms from RUR 4 045.1 mln. to RUR 3 309.4 mln. mainly driven by the closure of non-performing stores. In 1H 2010 sales of the retail unit decreased by 23.9% in ruble terms from RUR 8 837.6 mln to RUR 6 725.6 mln.

Like-for-like sales³ in Q2 2010 versus Q2 2009 decreased by 10.4% in ruble terms driven by a 10.8% decline in customer traffic due to slow recovery of a consumer demand after an economic crisis of 2009. L-f-L average check in Q2 2010 versus Q2 2009 increased by 1.0% in ruble terms and reached RUR 239.4.

GROSS MARGIN

Gross margin in the Retail Unit decreased by 1% from 31.4% in 1H 2009 to 30.4% in 1H 2010.

Gross margin drop was due for the new governmental price regulation rules on essential medicine to come into effect since 1st of April, 2010, and also for the Company`s pricing policy revision directed to reduction of medicines prices. The new strategy of the Company`s development, based on price decrease of the most required by the customers medicine as well as dynamic marketing activity, will allow the Company to reach its main objective – to improve essentially the customer traffic and to provide its performance in L-f-L stores by the end of 2010 at the level of 2009. Thus decline in 2010 gross margin is planned to be compensated by purchasing policy changes (products entry prices decrease) and improvement of non-medicine (parapharmaceutical products) and private label goods share in total sales turnover.

	RETAIL UNIT		
	1H, mln RUR		
	2010	2009	change, %
<i>Sales</i>	6 725,6	8 837,6	-23,9%
<i>Gross profit</i>	2 042,70	2 777,4	-26,5%
<i>% of sales</i>	30,4%	31,4%	1,0%

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (SG&A)

Selling, general and administrative expenses significantly dropped by 18.4% in ruble terms from RUR 1 301.8 mln in Q2 2009 to RUR 1 062.2 mln in Q2 2010. Compared with Q1 2010, SG&A decreased by 6.4% (from RUR 1 135.1 mln. in Q1 2010 to RUR 1 062.2 mln in Q2 2010).

³ The L-F-L reporting is executed for a selection of comparable stores, which are:

- opened or acquired 24 months from the current reporting period, and
- neither rebranded nor reformatted or somehow significantly changed during last 24 months, and
- not closed in the current reporting period.

As of the end of Q2 2010 the Company operated 832 comparable stores.

The essential factor in SG&A reduction is taken up by the cut in administration, personnel (including the headcount reduction), logistics expenses as well as rental costs reduction due to rent rates decrease. Besides, within the reporting period a number of actions were taken aimed to improve the stores operational efficiency (including closing of non-profitable stores).

As a percentage of sales, in Q2 2010 SG&A almost stayed at the level of Q2 2009 (decreased by 0.1%) and slightly increased by 1.2.% in 1H 2010 versus 1H 2009.

	Retail Unit					
	Q2 2010, mln RUR			1 H 2010, mln RUR		
	2010	2009	change, %	2010	2009	change, %
<i>Selling, general and administrative costs (including amortization)</i>	1 062,2	1 301,8	-18,4%	2 197,3	2 782,7	-21,0%
<i>% of sales</i>	32,1%	32,2%	0,1%	32,7%	31,5%	1,2%
Amortization	74,3	89, 1		152,4	183,6	
<i>Selling, general and administrative costs (excluding amortization)</i>	987,9	1 212,7		2 044,9	2 599,1	
<i>% of sales</i>	29,9%	30,0%		30,4 %	29,4 %	

1H 2010 store level performance of like-for-like stores demonstrated the following results:

RUR, mln	1H 2010			1H 2009			change,%		
	Moscow	Regions	Total	Moscow	Regions	Total	Moscow	Regions	Total
Net Sales	2 541,3	3 601,2	6 151,5	2 861,7	4 470,5	7 332,2	-11,2%	-19,2%	-16,1%
Gross profit	901,2	1 005,1	1 906,3	1031,1	1 274,0	2 305,0	-12,6%	-21,1%	-17,3%
%	35,5%	27,8%	31,0%	36,0%	28,5%	31,4%			
Store level expenses	689,0	680,0	1 369,0	657,3	648,3	1 305,6	-5,7%	-11,6%	-8,6%
%	27,1%	18,8%	22,3%	25,5%	17,2%	20,4%			
Rent	276,4	252,5	528,9	255,6	210,5	466,1	-5,7%	-5,2%	-5,5%
Personnel	319,1	311,1	630,2	288,7	316,7	605,4	2,7%	-15,5%	-7,2%
Other	93,5	116,4	209,9	113,0	121,1	234,1	-17,3%	-3,9%	-10,3%
Store level Operating profit	212,2	325,1	537,3	300,6	505,8	806,5	-29,4%	-35,7%	-33,4%
%	8,3%	9,0%	8,7%	10,5%	11,3%	11,0%			
Nr of comparable stores	199	633	832	199	633	832			

Store level net sales in Like-for-like stores decreased by 16.1% from RUR 7 332.2 mln in 1H 2009 to RUR 6 151.5 mln in 1H 2010. Store level expenses in Like-for-like stores increased by 8.6 % in 1H 2010 versus 1H 2009. It was reached due to expenses optimization at store level, including the planned expense reduction for headcount.

TRADE ACCOUNTS PAYABLE

Versus Q2 2009 trade accounts payable decreased by 40.3% from RUR 5 577.3 mln to RUR 3 327.7 mln at the end of Q2 2010. Compared with the trade accounts payable amount as of 1st of January, 2010, its present level of RUR 3 327.7 mln decreased by 4.8% from RUR 3 498.6 mln.

INVENTORY

Inventory average days turnover increased to 77 days at the end of Q2 2010 from 74 days at the end of Q2 2009. In absolute terms, inventory reduced by 3.7% to RUR 2 270 mln at the end of Q2 2010 compared with RUR 2 358 mln at the end of Q2 2009.

Inventory average days turnover increase was due to the Company's planned increasing inventory turnover in the stores from 56 days in Q2 2009 to 67 days in Q2 2010 aimed at stock outs reduction and goods availability improvements in the stores.

Versus Q1 2010 average days of inventory turnover increased from 73 days to 77 days due to seasonality as well as stock outs reduction by 30%.

OTHER BUSINESSES

Veropharm

For the update on 1H 2010 performance please refer to the official press-release of the company as of September 9th, 2010, at www.pahrmacychain366.ru

ELC

Early Learning Center revenue consolidated by the Group (which is 50% of the total revenue) reached RUR 47.2 mln, a 25.5% growth in Q2 2010 versus Q2 2009 (RUR 37.9 mln) and a 39.2% growth versus Q1 2010 (RUR 33.9 mln) driven primarily by opening of new stores and an increase in L-f-L sales.

ELC Net Profit equaled to RUR 1.9 mln in Q2 2010 compared with RUR 0.4 mln in the relative period of 2009, a 375% improvement.

EBITDA increased significantly up to RUR 4.6 mln in ruble terms or up to 9.7% as a percentage of sales in Q2 2010 from RUR 0.03 mln (or 0.1% as a percentage of sales) in Q2 2009. Compared with a negative value of RUR -2.1.mln in Q1 2010, EBITDA demonstrated a 319% improvement in Q2 2010.

As of the end of Q2 2010, the unit operated 17 stores, 5 of which were opened in Q2 2010.

GROUP FINANCIAL DEBT

Group Financial Debt at the end of Q2 2010 increased in ruble terms to RUR 7 897.9 mln from RUR 4 674.1 mln at the end of Q2 2009 due to the minority interest restructuring into a long- term debt in 2009 and the attraction of additional bank loans aimed at the Group current assets supplement in Q2 2010. However compared with Q1 2010 Group Financial Debt decreased by 3% from RUR 8 147.4 mln as a result of partial payment of debt. Group Financial Net Debt (after deduction of monetary funds remains in the accounts) stood at RUR 7 329.0 mln at the end of Q2 2010.

The Retail unit debt (including the debt of Corprate Center) equaled to RUR 7 123.3 mln with 61% denominated in dollars; and Veropharm debt stood at RUR 774.7 mln with 4% denominated in dollars. 27 % of the Group debt is short-term.

GROUP FINANCIAL COSTS

In Q2 2010 versus Q2 2009 financial costs grew by 7.6% from RUR 279.5 mln and reached RUR 300.6 mln. However financial costs in 1H 2010 remained almost at the level of 1H 2009 (RUR 580.6 mln), decreasing by 0.1% and equaled to RUR 580.0 mln.

INVESTMENTS

In 1H 2010 the Group invested RUR 113.5 mln, out of which retail investments were RUR 30.3 mln, investments on the store level at ELC were RUR 5.4 mln and Veropharm investments equaled to RUR 122.2 mln.

In Q2 2010 the Group invested RUR 83.6 mln out of which retail investments were RUR 16.5 mln, investments on the store level at ELC were RUR 5.4 mln and Veropharm investments equaled to RUR 61.7 mln.

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Notes to the editor:

Pharmacy Chain 36.6 is the first public national health and beauty retailer listed on the "B" list on the RTS (ticker: APTK) and off-list on the MICEX. The Company's market capitalization as of 8th December 2010 totaled USD 382.200.000 (according to RTS). Pharmacy Chain 36.6 operates 999 stores in 29 regions and 90 cities in Russia as of 30th of June, 2010.

OAO Veropharm, the company's generics subsidiary, is one of Russia's top five pharmaceutical manufacturers (according to Pharmexpert research). Veropharm's shares are traded in the "B" list on the RTS (ticker: VRPH) and off-list on MICEX (ticker: VRFM). OAO Veropharm's market capitalization as of 8th December 2010 totaled USD 432.900.000 (according to RTS).

ZAO Apteki 36.6 is one of the founding members of the Russian Association of Pharmacy Chains (RAPC). Pharmacy Chain 36.6 is a participating member of the international retailers' organizations - NRF and NACDS.

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OA0 PHARMACY CHAIN 36.6 AND SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS STATEMENT
Q2 2010 ending 30 June 2010 (mln. rubles)

	Q2 2010	Q2 2009
Revenue	5 212,3	5 592,8
Cost of sales	(2 954,1)	(3 227,2)
Gross profit	2 258,2	2 365,6
Selling, general and administrative expenses	(1 730,0)	(1 874,2)
Impairment of goodwill	-	-
Operating income/loss	528,2	491,4
Finance costs	(300,6)	(279,5)
Other income (loss)	8,2	(7,8)
Foreign currency exchange gain (loss)	(252,8)	202,2
Income/(loss) before tax and investment activity	(17,0)	406,3
Income tax expense	(85,0)	(110,8)
Minority interest	(282,3)	(248,8)
Loss for the period	(384,3)	46,7

OAo PHARMACY CHAIN 36.6 AND SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS STATEMENT
1H 2010 ending 30 June 2010 (mln. rubles)

	1H 2010	1H 2009
Revenue	9 749,4	11 456,8
Cost of sales	(5 642,2)	(7 010,5)
Gross profit	4 107,2	4 446,2
Selling, general and administrative expenses	(3 473,9)	(3 875,2)
Impairment of goodwill	-	-
Operating income/loss	633,3	571,0
Finance costs	(580,0)	(580,6)
Other income (loss)	4,5	(16,1)
Foreign currency exchange gain (loss)	(147,2)	(126,1)
Income/(loss) before tax and investment activity	(89,4)	(151,8)
Income tax expense	(135,2)	(100,4)
Minority interest	(321,7)	(349,6)
Loss for the period	(546,3)	(601,8)

OAO PHARMACY CHAIN 36.6 AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As of 30 June 2010 (mln. rubles)

	1H 2010	1H 2009
ASSETS		
NON-CURRENT ASSETS:		
Property, plant & equipment	2 883,5	3 139,5
Goodwill	4 875,5	4 935,9
Intangible assets	296,5	277,8
Loans receivable	192,4	-
Other assets	25,0	35,5
Total non-current assets	8 272,9	8 388,8
CURRENT ASSETS:		
Inventories	3 431,2	3 085,0
Accounts receivable	4 002,0	3 919,4
Other receivables and prepaid expenses	1 728,2	1 847,9
Cash and bank balances	567,0	548,0
Total current assets	9 730,3	9 400,3
TOTAL ASSETS	18 003,2	17 789,0
LIABILITIES AND SHAREHOLDERS' EQUITY		
SHAREHOLDERS' EQUITY:		
Share capital	67,1	6,0
Additional paid-in capital	6 261,7	3 064,8
Retained earnings	(3 773,8)	(3 411,7)
Total shareholders' equity	2 555,1	(340,8)
MINORITY INTERESTS IN EQUITY OF SUBSIDIARIES	2 617,2	4 991,2
LONG-TERM LIABILITIES:		
Borrowings	5 797,5	113,3
Deferred tax liabilities	96,7	106,4
Long-term lease payable	12,4	9,2
Total long-term liabilities	5906,7	228,9
CURRENT LIABILITIES:		
Accounts payable	3 794,3	6 413,7
Borrowings	2 100,4	4 560,8
Other payables and accrued expenses	577,4	1 360,7
Taxes payable	439,9	558,2
Current portion of lease payable	12,2	16,4
Total current liabilities	6 924,2	12 909,8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	18 003,2	17 789,0

OA0 PHARMACY CHAIN 36.6 AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For Q2 ending 30 June 2010 (*mln. rubles*)

	Q2 2010	Q2 2009
OPERATING ACTIVITIES		
Income/loss before taxation and minority interest	(17,0)	406,2
Depreciation and amortization	111,8	120,6
Loss on disposal of property, plan and equipment and Unrealized investments	(8,2)	19,1
Impairment recognized (reversed) on accounts receivable	8,3	95,7
Unused vacation provision	(10,7)	(34,7)
Inventory provision and write-off	(7,5)	(42,0)
Impairment of goodwill	-	-
Foreign exchange loss/(gain)	252,8	(202,2)
Finance costs	300,6	279,5
Operating cash flow before working capital changes	630,0	642,2
(Increase) / decrease in inventories	48,8	430,3
(Increase) / decrease in accounts receivable	(535,0)	(1093,9)
(Increase) / decrease in other receivables and prepaid expenses	(300,6)	(359,4)
Increase / (decrease) in accounts payable	173,3	295,4
Increase / (decrease) in other payables and accruals	(42,7)	16,3
Cash generated from operations	(26,3)	(69,0)
Income taxes paid	(77,7)	53,8
Finance costs paid	(397,6)	(95,9)
Net cash generated by (used in) operating activities	(501,6)	(111,1)
INVESTING ACTIVITIES		
Net cash outflow on acquisition of subsidiaries	-	-
Purchase of property, plant and equipment	(52,0)	(65,0)
Purchase of intangible assets	(31,7)	(5,3)
Proceeds from sale of property, plant and equipment	-	-
Proceeds from sale of short-term investments	200,0	-
Net cash generated by (used in) investing activities	116,4	(70,2)
FINANCING ACTIVITIES		
Proceeds from borrowings, net	(587,3)	(37,1)
Proceeds from issuance of ordinary shares, net	928,6	-
Distributions paid to minority shareholders	-	-
Net cash (used in) generated by financing activities	341,3	(37,1)
Net (decrease) increase in cash and cash equivalents	(43,9)	(218,4)
Cash and cash equivalents at beginning of the period	612,9	766,4
Cash and cash equivalents at end of the period	569,0	548,0

OAD PHARMACY CHAIN 36.6 AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For 6 months ending 30 June 2010 (mln. rubles)

	1H 2010	1H 2010
OPERATING ACTIVITIES		
Income/loss before taxation and minority interest	(89,4)	(151,8)
Depreciation and amortization	220,3	252,7
Loss on disposal of property, plan and equipment and Unrealized investments	(4,5)	19,1
Impairment recognized (reversed) on accounts receivable	(4,8)	94,6
Unused vacation provision	(0,6)	(11,3)
Inventory provision and write-off	(17,8)	2,8
Impairment of goodwill	-	-
Foreign exchange loss/(gain)	147,2	126,1
Finance costs	580,0	580,6
Operating cash flow before working capital changes	830,4	912,7
(Increase) / decrease in inventories	41,6	219,6
(Increase) / decrease in accounts receivable	(821,2)	(966,2)
(Increase) / decrease in other receivables and prepaid expenses	(456,5)	(272,7)
Increase / (decrease) in accounts payable	(44,3)	345,6
Increase / (decrease) in other payables and accruals	(183,6)	(224,8)
Cash generated from operations	(633,6)	14,3
Income taxes paid	(104,0)	(34,0)
Finance costs paid	(655,1)	(272,9)
Net cash generated by (used in) operating activities	(1 392,6)	(292,7)
INVESTING ACTIVITIES		
Net cash outflow on acquisition of subsidiaries	-	-
Purchase of property, plant and equipment	(73,5)	(86,4)
Purchase of intangible assets	(40,0)	(8,7)
Proceeds from sale of property, plant and equipment	-	-
Proceeds from sale of short-term investments	200,0	-
Net cash generated by (used in) investing activities	86,5	(95,1)
FINANCING ACTIVITIES		
Proceeds from borrowings, net	208,8	233,6
Proceeds from issuance of ordinary shares, net	928,6	-
Distributions paid to minority shareholders	-	-
Net cash (used in) generated by financing activities	1 137,4	233,6
Net (decrease) increase in cash and cash equivalents	(168,7)	(154,2)
Cash and cash equivalents at beginning of the period	737,7	702,2
Cash and cash equivalents at end of the period	569,0	548,0