

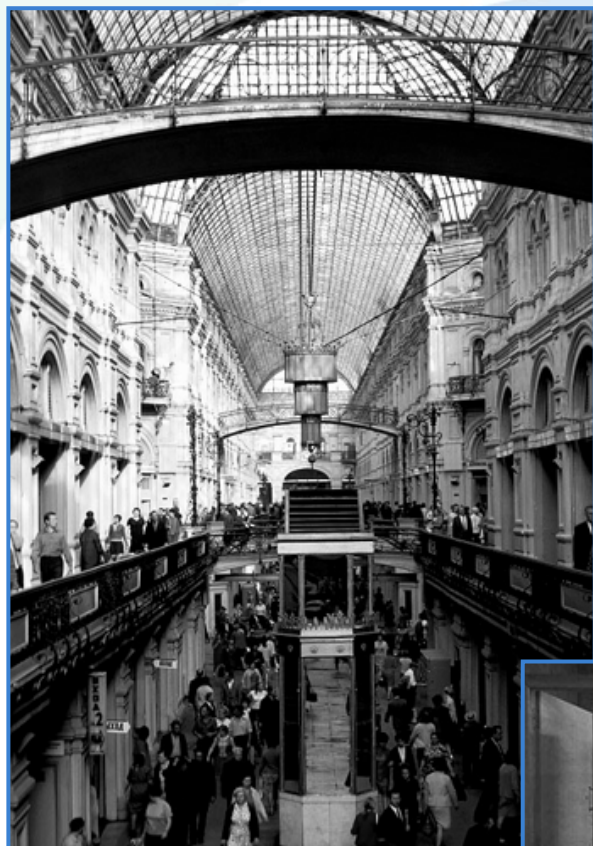


# State of Global Retailing

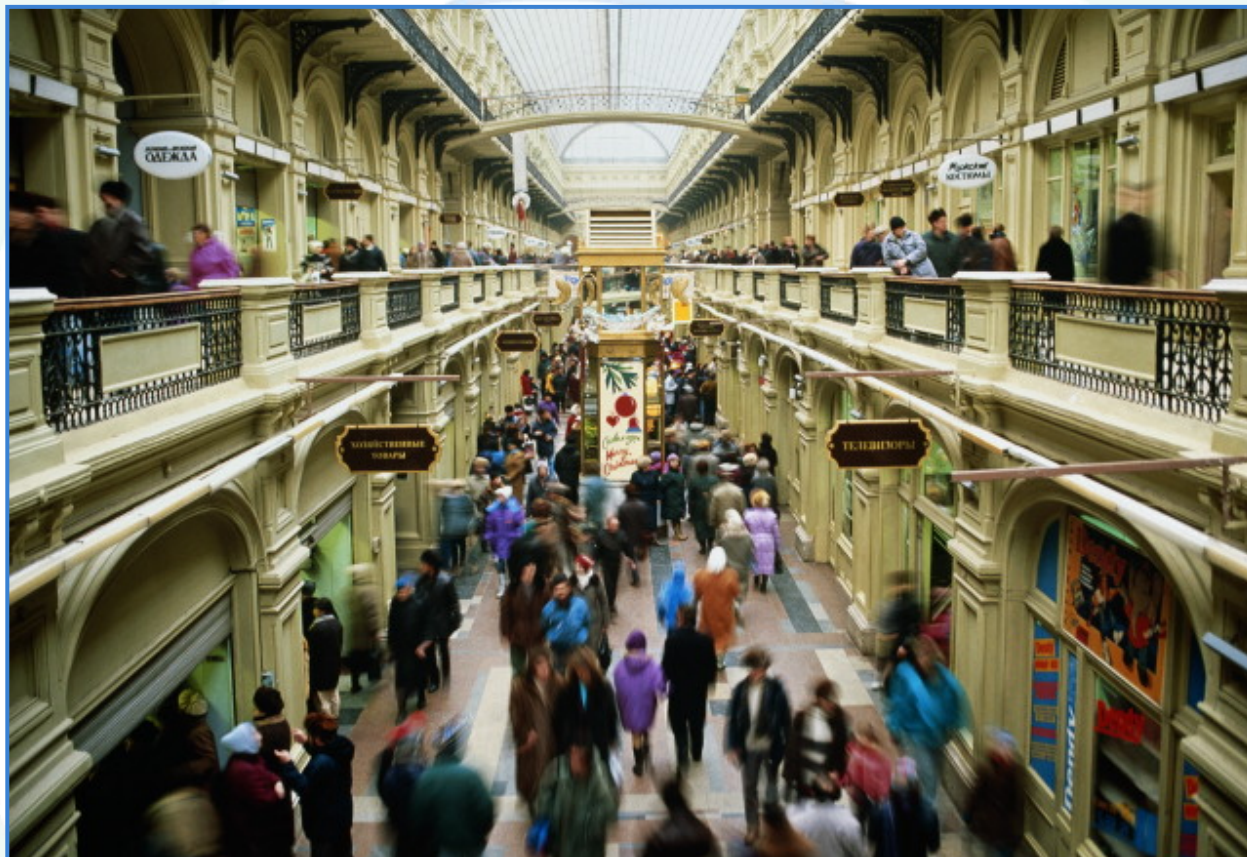


## A Closer Look at Russia

**Artem Bektemirov, CEO  
Pharmacy Chain 36.6  
NRF Annual Meeting  
16 January 2005**



## *Soviet-Style Retailing*



## ***Retailing Today***





## *Shopping at Apteka 36.6*





# RUSSIA: #1 EMERGING RETAIL GROWTH MARKET

A.T. Kearney's 2004 Global Retail Development Index

Ranking	Country	Country Risk	Market Attractiveness	Market Saturation	Time Pressure	Score
1	Russia	56	56	77	100	100
2	India	62	34	92	72	88
3	China	71	42	62	90	86

# WHY RUSSIA IS #1 RETAIL GROWTH MARKET



- 1 Market Growth: 10% annual growth in the next 5 years. Already one of the 10 largest retail markets in the world.
- 2 Strong Economy: Driven by strong trade balance, growth in productivity and investment, and fiscal responsibility.
- 3 Market Opportunities: With rising incomes, consumers seek greater quality and choice offered by modern formats.
- 4 Government Support: Relatively liberal policies in consumer economy balance traditional hurdles.
- 5 Strong Local Players Emerging: Russia retailers now emerging with operating efficiencies comparable to international benchmarks.



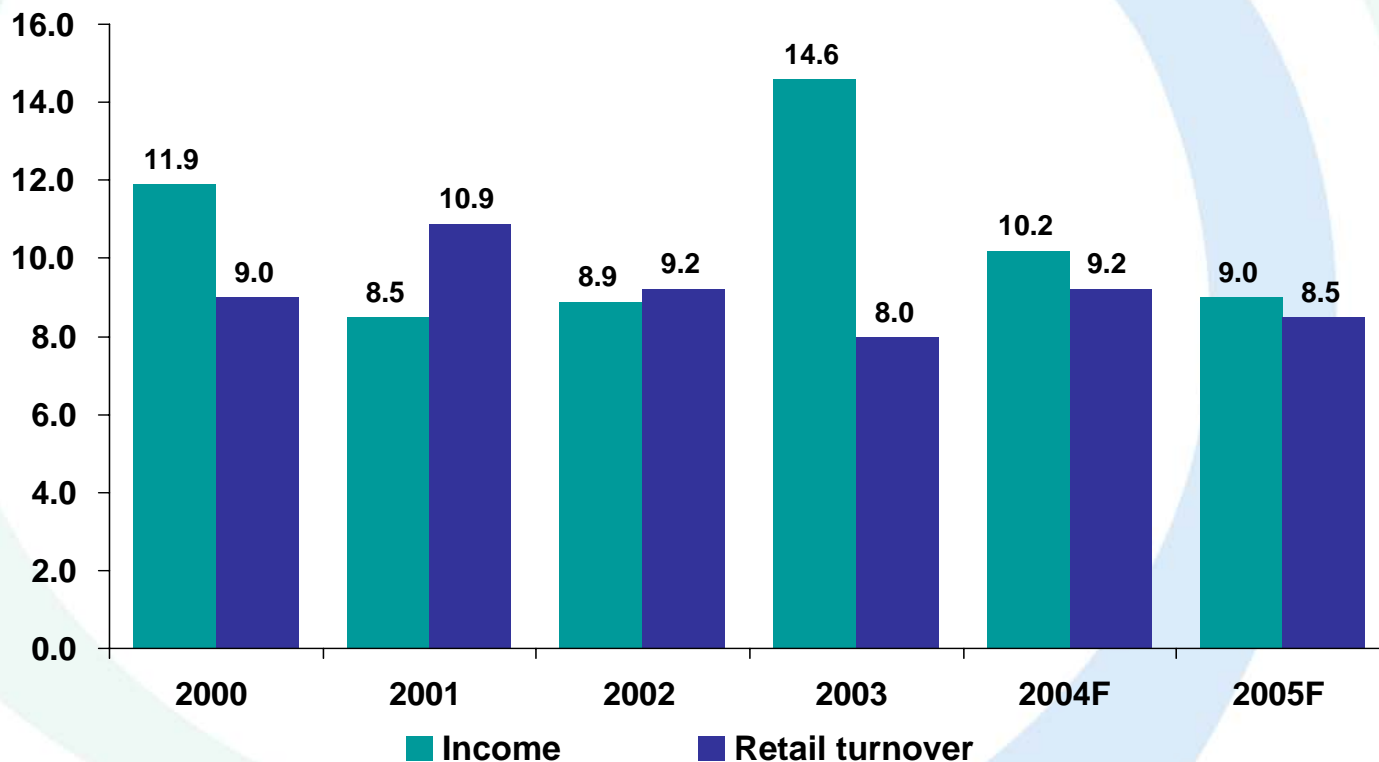
# RUSSIA'S TWO ECONOMIES

	Consumer-Based	Resource-Based
% of GDP	50%	25%
Growth Rate (2002-04)	15-20%	10-15%
Gov't Influence	Limited	Significant
Privatization	Entrepreneurial start ups after 1990s	Privatized State Resources in 1990s
Political Risks	Adequate	Very High
Company Size	SMEs and MMEs	Domestic Blue Chips
Concentration	Varies by Sector	High
Investment	Under-invested	Highly-invested



# RUSSIA'S RETAIL MARKET: \$170 BILLION AND GROWING

Real growth of consumer income and retail turnover % y-o-y



Source: State statistic committee, IRG estimations

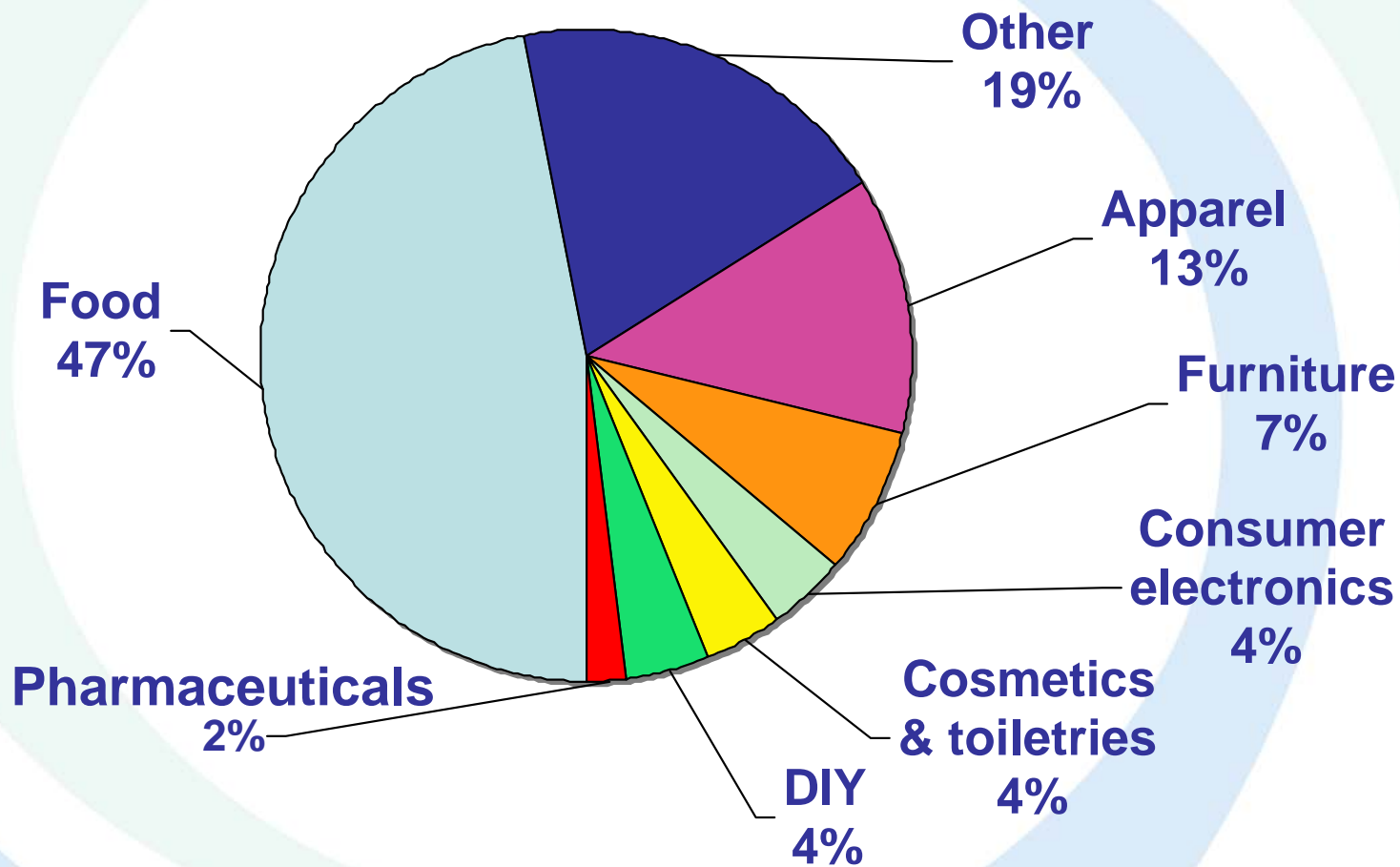
6-Year Annual  
Average:

Retail:  
**9.1%**

Income:  
**10.3%**



# RETAIL MARKET SEGMENTS



Annual  
Forecast Growth  
2004-2010\*

Electronics **15%**

DIY **14%**

Food **12%**

Cosmetics **11%**

Pharmaceuticals **9%**

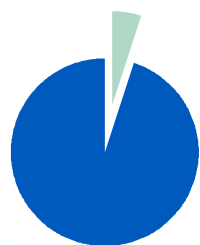
*\*nominal USD, CAGR*

Source: GKS, UFG, Euromonitor



# RUSSIAN RETAIL MARKET REMAINS FRAGMENTED

■ Top-5 Players' Marketshare



**5%**  
Food



**36%**  
Electronics



**6%**  
Pharmaceuticals



**9%**  
DIY

**Top Russian  
Retailers**

Food:

**Metro**

Electronics:

**Eldorado**

Pharmaceuticals:

**36.6**

DIY:

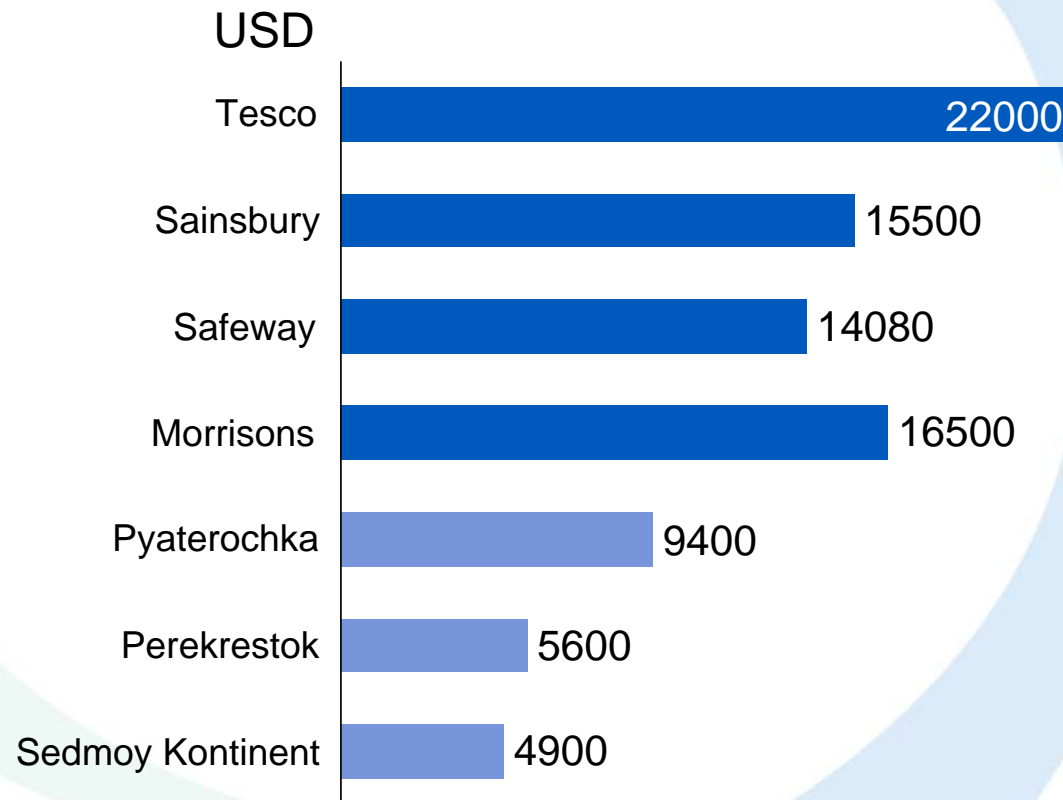
**Starik  
Hottabych**

Source: UFG Research

# FOOD RETAIL: RUSSIA vs. INTERNATIONAL



**Sales per Square Meter (2002)**



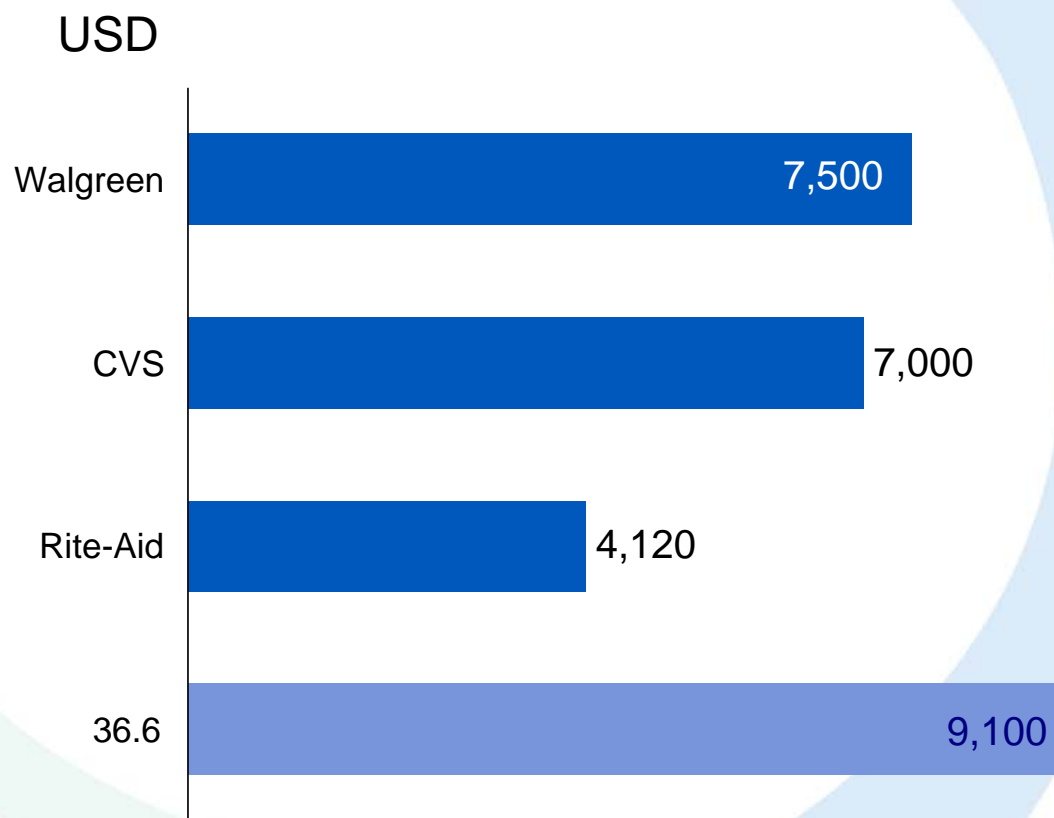
Здоровый  
образ жизни





# PHARMACY RETAIL CHAINS: RUSSIA vs. INTERNATIONAL

Sales per Square Meter (2003)





# RUSSIAN RETAIL: FUTURE TRENDS

- 1 New Formats: New and different formats (DIY, convenience stores).
- 2 Consolidation: Small chains bought by larger retailers.
- 3 Regional Expansion: Cities with population +1 million.
- 4 Foreign Retailers: Continued expansion over next 2 - 3 years.
- 5 Large Format Retail: Trade centers and hypermarkets.



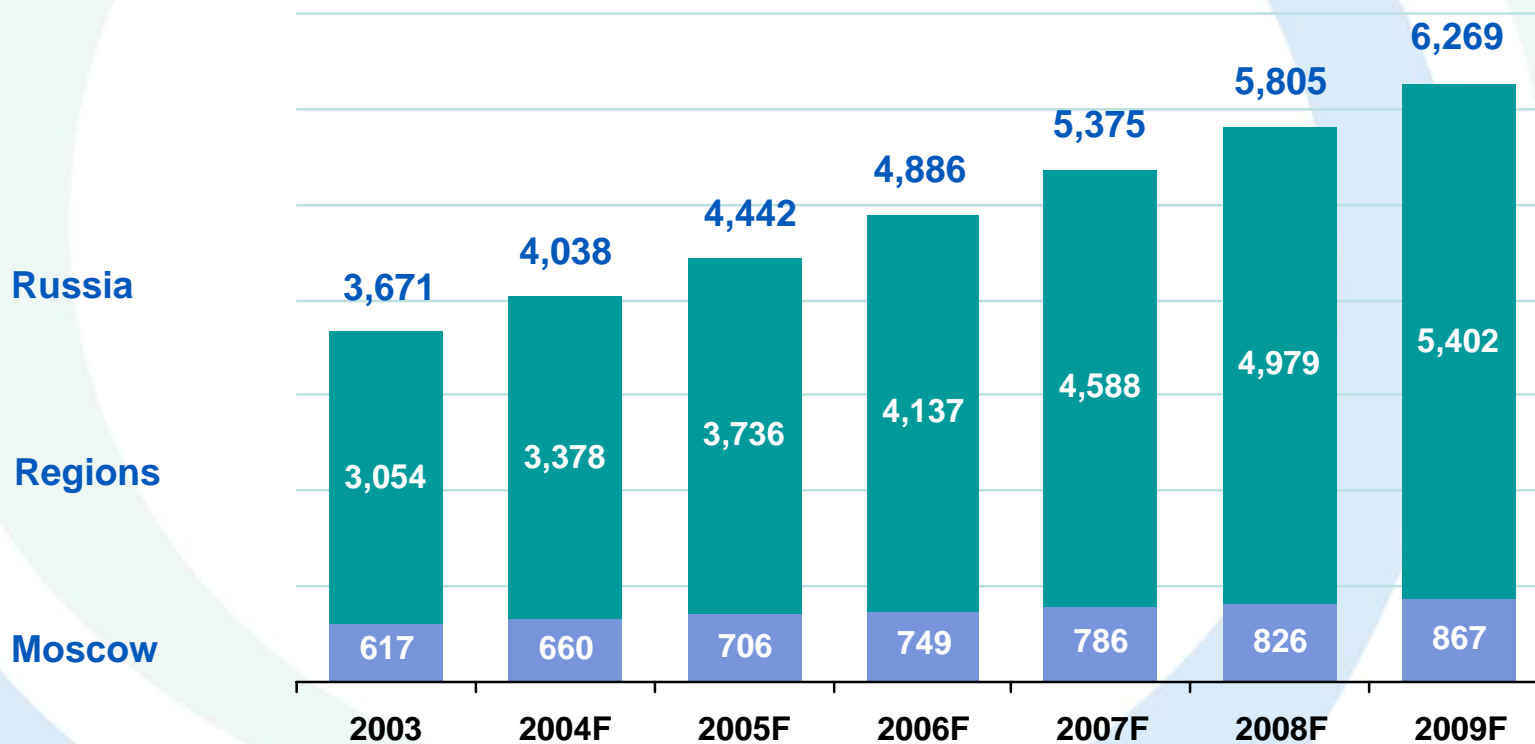
# RUSSIAN RETAIL: MAIN BARRIERS

- ① Capital: Lack of investments for domestic retail chain development.
- ② Consumer Income: Low income of Russian population outside Moscow.
- ③ Real Estate Shortage/Prices: Lack of space and high rental and purchase prices.
- ④ Competition: Particularly with unorganized trade and open markets.
- ⑤ Bureaucracy & Red Tape.



# PHARMACEUTICAL MARKET FORECAST

USD Millions



2003-2009  
CAGR\*

Russia  
9.3%

Regions  
10%

Moscow  
5.8%

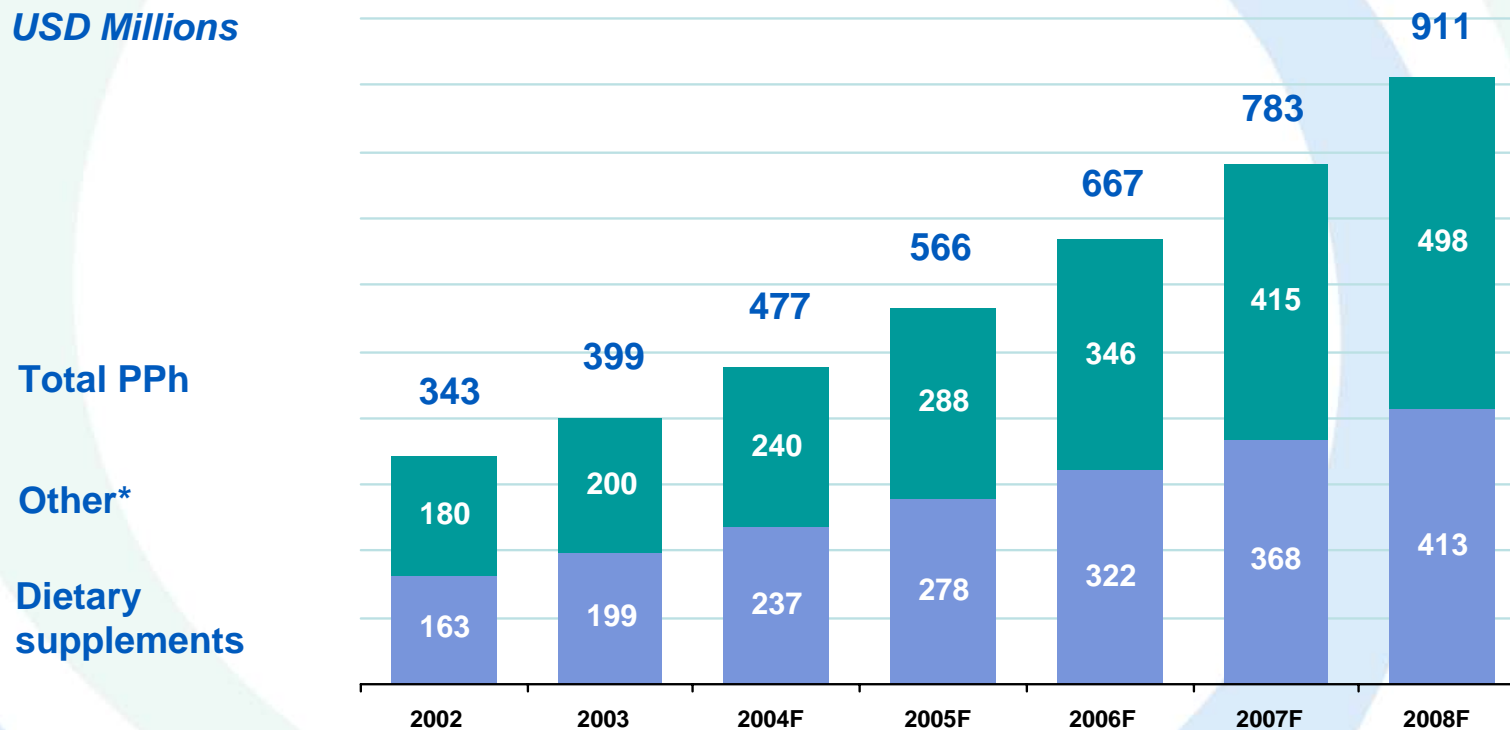
Source: Pharmexpert, RMBC, DSM, 36.6

\*Compound Annual Growth Rate



# PARA-PHARMACEUTICAL MARKET FORECAST

USD Millions



**2003-2009 CAGR**

Total PPh  
**18%**

Other  
**20%**

Supplements  
**15.8%**

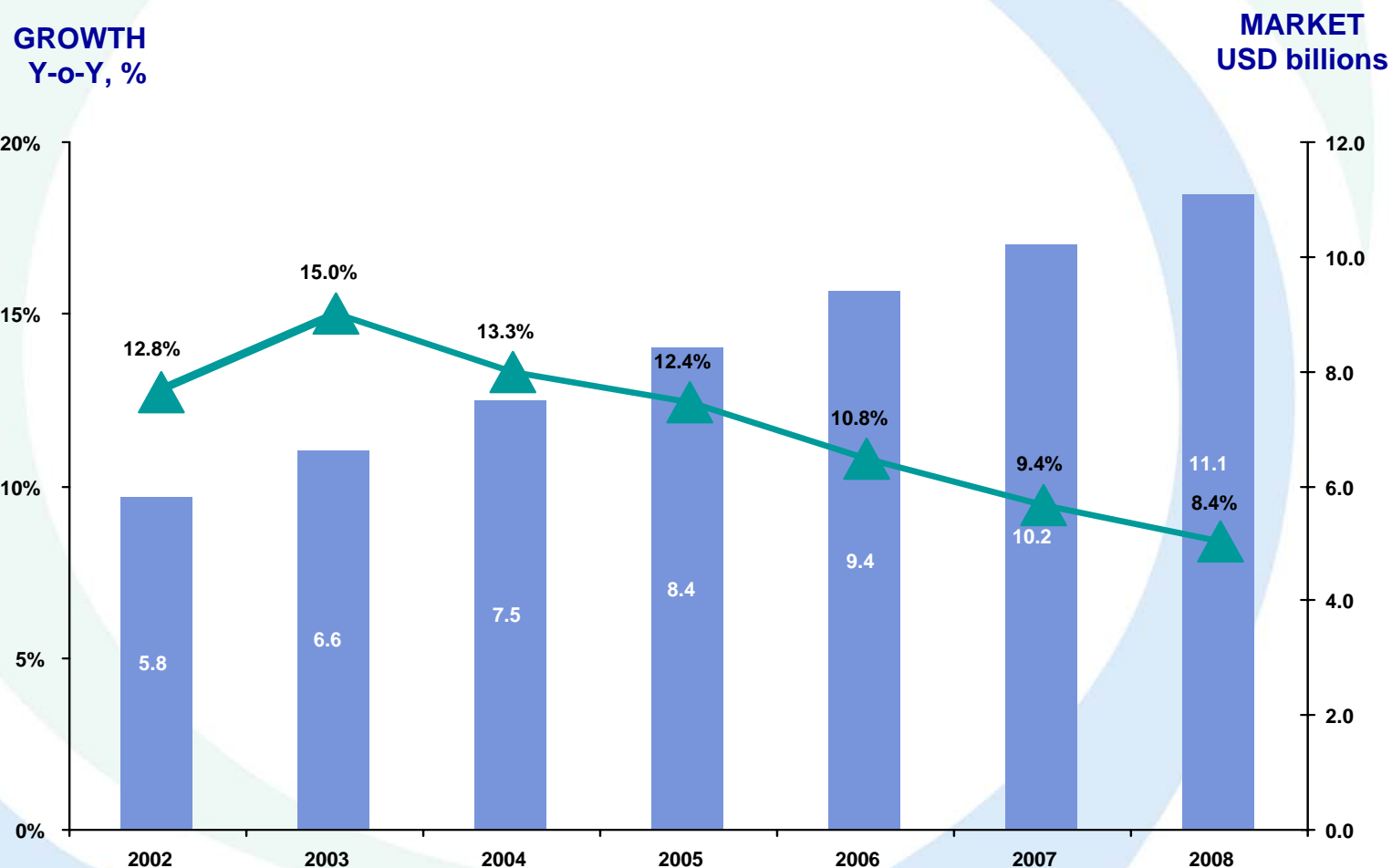
\* Includes medical devices (blood pressure meters, thermometers, glucometers, etc.), first aid (adhesive bandages, wound care materials, etc.), patient care products, specialty hosiery and support products.

Source: Euromonitor, Pharmexpert, Supplier data, Internal estimates





# COSMETICS AND TOILETRIES MARKET FORECAST



Sources: AIPM/RMBC, UFG, GKS, Euromonitor

**Fastest  
Growing  
% CAGR  
(2003-2008)**

Diapers **16.1%**

Sanitary  
Protection **15.5%**

Skin Care **14.6%**

# Pharmacy Chain 36.6

Russia's Leading Health and  
Beauty Retailer

36.6

healthy fit & strong





## 36.6 AT A GLANCE

**147.8**  
million sales in 2003. EBITDA was 9.3% in 2003.

**145**  
million market capitalization. 20% of shares placed in 2003 IPO.

**25%** topline annual growth: 30% in retail, 20% in manufacturing.

**250**  
pharmacies in 7 Russian regions.

**7.3**  
million purchases in 4th quarter 2004.

**290**  
products in the generic portfolio of Veropharm.

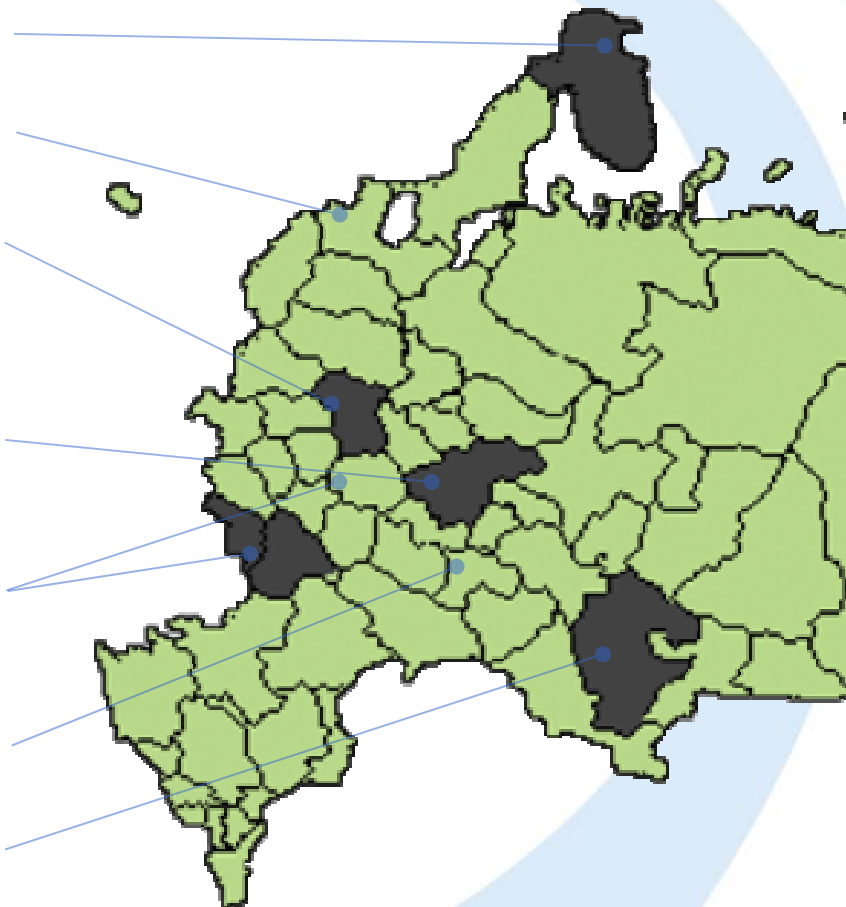
**6000**  
employees skilled personnel and experienced management team.

36.6



# 36.6 EXPANSION

<b>MURMANSK</b>	<b>31</b>
<b>ST.PETERSBURG</b>	<b>4</b>
<b>MOSCOW &amp; LOGISTIC REGION</b>	<b>92</b>
<b>NIZHNY NOVGOROD</b>	<b>40</b>
<b>VORONEZH &amp; TULA</b>	<b>5</b>
<b>ULYANOVSK</b>	<b>9</b>
<b>BASHKIRIA</b>	<b>69</b>



**250** pharmacies

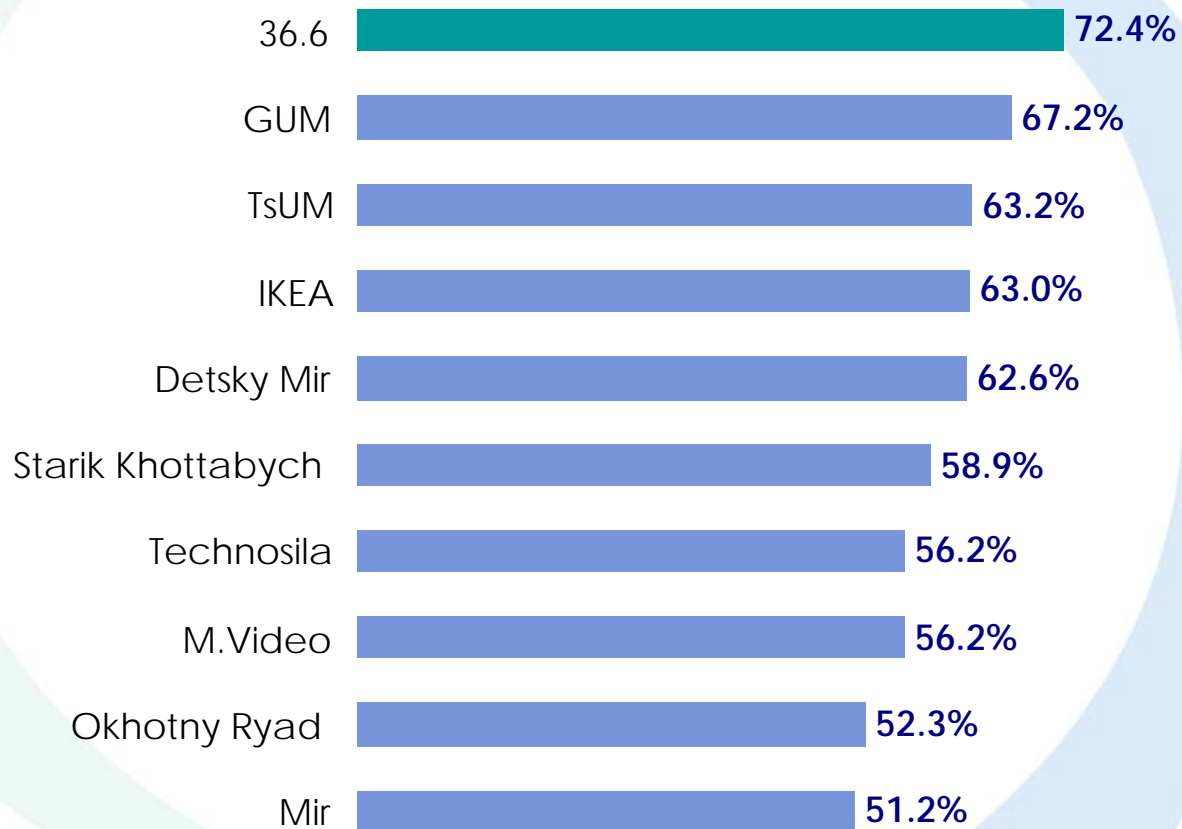
**7** regions

**30** million  
customers





## 36.6 IS RUSSIA'S MOST RECOGNIZABLE BRAND



Also leads in:

attendance **49%**

purchases **40%**



# CUSTOMER VALUE PROPOSITION

- 1 Convenient locations.
- 2 Reliable quality products.
- 3 Excellent shopping experience.
- 4 Wide assortment.
- 5 Competitive prices.



*We strive to increase the value of the company by providing our customers with a reason to come back.*



# 36.6 TODAY & TOMORROW

SALES 2003  
USD millions

STORES  
2003



By **2008**:

**\$800** million in sales

**10%** of market

**60** million customers

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**366**

**healthy fit & strong**

