

Universal investment group

quarterly review of the bond issuer activities

May 2008

Concern Khibprom

PRODUCTION AND SALES OF BAKERY PRODUCTS AND CONFECTIONARY

www.khibprom.com.ua

Bonds:

Series B - 8 500 000 UAH, coupon rate 10.5%

Series C - 8 500 000 UAH, coupon rate 10.5%

Series D - 50 000 000 UAH, coupon rate 12.0%

Income statement

<i>mio UAH</i>	2007	1 Q 2007	1 Q 2008
Net revenue	383.8	69.1	106.8
Gross profit	62.0	15.3	19.3
Net income	-2.0	1.1	1.2
Income tax expenses		0.2	0.04
Interest	14.3	5.0	3.9
Depreciation	9.9	2.3	2.8
EBITDA	22.2	8.5	8.0

Financial ratios

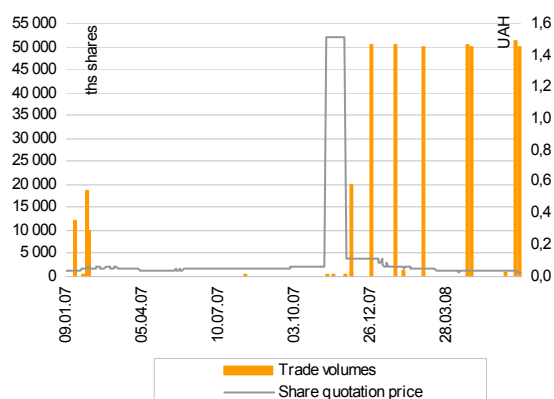
	2007	1 Q 2007	1 Q 2008
Gross margin, %	16.2	22.1	18.1
Net margin, %	-0.5	1.6	1.1
EBITDA margin, %	5.8%	12.4%	7.5%
ROE, %	-1.4	3.9	-1.0
Equity ratio, %	42	42	50
Current ratio	2.2	2.9	2.0

Information on the shares of the Concern Khibprom

Market price PFTS: 0.03 UAH

Issued stock: 15 000 000 000

Mcap: 450 mio UAH



Summary of 1st quarter

- In 1st quarter of 2008 Concern Khibprom increased production of goods by 2.8% in physical terms to 26.2 thousand tones, by 39.4% in money terms to 89.2 mio UAH;
- Net revenue of the Concern grew by 37.7 mio UAH (55%) and made 106.8 mio UAH;
- Net income grew by 9.1% comparing to January-March of the last year and was 1.179 mio UAH;
- Consolidated assets of the company grew by 33.4% to 561.2 mio UAH;
- Share of own capital of the Concern grew from 42% to 50%.

The latest news of OJSC „Concern Khibprom”

- General meetings of shareholders of OJSC “Concern Khibprom” of April, 11, 2008 accepted decision about setting Roman Khrusch, which held a position of financial director of company before, general director of the company. The former general director of OJSC “Concern Khibprom” Vadim Vyshnevskiy, was appointed chairman of the supervisory board.
- On March, 19, 2008 general director Vadim Vyshnevskiy was acknowledged the best top-manager in bread and bakery industry and took 43 place in the general rating of TOP-100 of best top-managers of Ukraine;
- In February, 2008 “Concern Khibprom” led the rating of the most developing enterprises of bread and bakery industry in “TOP-100. Rating of the best companies of Ukraine”;
- From February, 1, 2008 companies DP «Lviv bread-baking plant No. 5», its structural subdivisions – “Chervonogradskiy bread-baking plant” and “Sambirskiy khibokombinat”, and DP “Kaluskiy khibokombinat” started to work in the unique legal entity – OJSC “Concern Khibprom”.

Concern Klibprom. Review of the company performance for 1 Q 2008

Bakery confrontation

Price situation on the market of bread became under essential politic influence along with situation on the market of sunflower-seed oil, flour, and also to less extent on the markets of meat, milk and some other food stuffs. The anti-inflationary policy of the government got clearly expressed administrative character and characterized by the administrative regulation of prices. In September, 2007 the Cabinet gave powers the organs of local authority to regulate prices on the panary products of social sorts. Thus, in most regions limitation of profitability was set appr 10%.

After growth of costs of all of constituents most of enterprises of industry ran into the problem of finding ground of necessity of price advance on products to the organs of local authority. Public organs created obstacles to price increase, conducting verifications and other formal measures of influence on bread producers that led to decline of margins under permissible level.

Consequences of actions of government were negative, it was felt by most of large bread and bakery enterprises, including Concern Klibprom, due to results of work in the second half of 2007. It compelled these enterprises in December of 2007 to sign Memorandum about combination of efforts between bread and bakery enterprises, trade unions and industry professional organizations with the purpose of diminishing of regulator influence of public organs on industry and decision of other industry issues. Also in December the workers of enterprises - members of memorandum carried out picket near building of Cabinet and appealed with the proper requirements to Verkhovna Rada, Government and President of Ukraine.

Although governmental officials did not execute the pulled out requirements, such actions of enterprises attracted attention of governmental officials and public to the situation in bread and bakery industry and could have a positive effect on industry in the future.

Beginning of 2008 was positive for the Concern: in January it conducted price increase on bakery products by 15% on the average, which was required to receive positive financial results. In April the prices were raised again. Further increase in prices is possible in third-fourth quarters, and depends on the situation on raw materials market and dynamics of growth of other constituents of prime price.

Growth of realization of products

Concern continues to increase production and realization of products volumes. In general, enterprises of OJSC "Concern Klibprom" realized 26.2 thousands tones of bakery and pastry products in 1st quarter of 2008. The realization was higher by 2.8% than in the same period of last year, due to growth of physical volume of realization of three groups of products – bread, rich and pastry wares. Especially considerable growth took place for realization of pastry wares - by 221 tones to 850 tones (increase by 50.0 %).

Share of pastry products and rich wares grew from 13% in 1 quarter of last year to 15% in physical terms that is carried out in accordance with the plans of Concern Klibprom on increase of output of products, which provide higher margin than panary products according to plan. In future, the Company plans to prolong development of production of highly remunerative goods and pursue such price policy, which will allow improving of financial results.

The volumes of realization of products of Concern Klibprom grew by 39.6% to 74.4 mio UAH (without VAT). Such growth took place due to the increase of prices on products during 2007 year, as well as growth of volume of realization of products of OJSC "Concern Klibprom".

Concern Khibprom. Review of the company performance for 1 Q 2008

Production of bread and bakery products by plant of OJSC "Concern Khibprom" for 3 months of 2007-2008

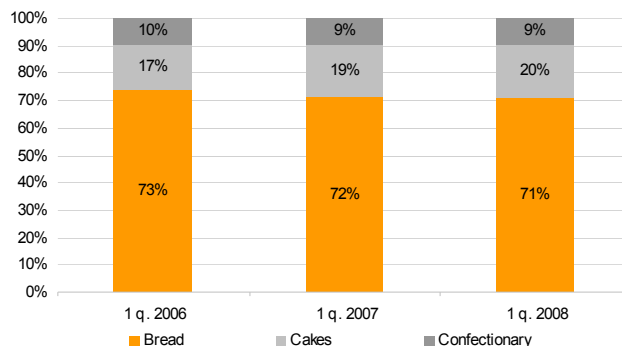
	1Q. 2007		1Q. 2008		1Q. 2008/1Q. 2007	
	thsd. tones	mio UAH (without VAT)	thsd. tones	mio UAH (without VAT)	physical terms	money terms
Bread	22.1	38.3	22.3	52.8	0.9%	37.8%
Cakes	2.8	10.2	3.0	14.8	7.1%	45.0%
Confectionary	0.6	4.9	0.9	6.8	50.0%	39.4%
Total	25.5	53.3	26.3	74.4	2.8%	39.6%

Source: OJSC "Concern Khibprom"

At the increase of production of goods volume on each of commodity groups, there was a reduction of panary products share – from 76.5% in 1st quarter of 2005 to 71% in 1st quarter of 2008. Such dynamics was predefined both by increase of demand of customers on pastry and rich wares and increase of supply of new types of rich products by bread-baking plants of the Concern. Thus, in 3 months of 2008 the share of rich wares was equal to 20%, comparatively with 19% for the same period in last year. The volume of such products grew by 45% in monetary terms to 14.8 mio UAH.

In first quarter of 2008 growth of realization of bread and rich wares in money terms took place mainly due to price advance on this type of products. In January the enterprises of the Concern increased prices on the products owing to objective factors – growth almost on all of constituents of unit costs.

Shares of groups of products in a general profit yield from realization Concern Khibprom



Source: OJSC "Concern Khibprom". Visualization: UIGroup.

Increasing capacity took place on DP "Rivnekhlib". In 1st quarter of 2008 reconstruction of one of plants of DP was completed (the enterprise carries out operating activity on two plants in Rivne) that allowed to grow general capacity of bread-baking plants of the enterprise to 33 tones of products per day.

Building of mill with capacity of 150 tones per day in Zhovkva (Lviv region), was temporally halted in 2007 year in connection with the change of supplier of equipment, but recommenced at the end of the first half of 2008. Completing works is planned to June, 2009 for the start of mill in a summer period.

Achieving positive financial results

Basic pre-condition of growth of net revenue – increase of prices on products – were slowed by regulation of executive power organs on prices of mass sorts of bread in 2007 and 1st quarter of 2008. That is why bakeries still have potential of profitability growth, which is limited by government actions. Since share of mass bread in the structure of products output of the Concern is considerable, growth of its production

Concern Khibprom. Review of the company performance for 1 Q 2008

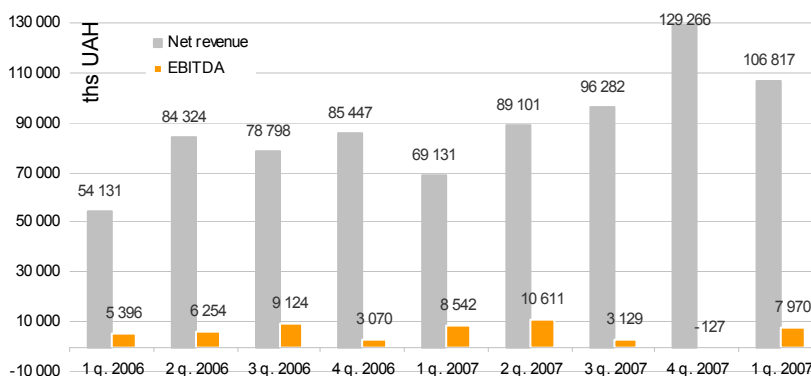
costs on one side and restriction of price advance on the products on the other side decrease financial ratios of the Issuer.

At growth of production in physical terms and possibility and willingness of market to accept the price on products, the Concern will have a possibility to improve all of its financial ratios. The current policy of inflation restriction by government negatively influences industry, however will relax gradually.

Earnings from realization of products grew by 58% to 128.8 mio UAH, net revenue of the Issuer increased by 55% to 106.8 mio UAH. Growth rate of net revenue is high due to price advance on bread and bakery products in January. Cost of goods grew with high rate that is why prices on products were gradually raised.

Gross margin was 18.1% that is higher than annual index (16.2%), but lower than index for 3 months of 2007 (22.1%). Such margin allowed rising of prices almost on the whole assortment of products, beginning from January, 3 by 15% on the average.

Quarterly indexes of net income and EBITDA of Concern Khibprom for 2006-2008



Source: OJSC "Concern Khibprom". Visualization: UIGroup.

EBITDA amounted to 7.97 mio UAH and decreased by 7% in relation to analogical period of last year. Thus, EBITDA margin diminished also to 7.5% in 1st quarter of 2008. However, this figure is higher than the annual index of 2007. Differences in the indexes of profitability for two periods were predefined by better terms of conduct of business in the last year and absence of price regulation on bakery products by local authorities at the beginning of last year.

In the first quarter of 2008 the Concern got net income to the amount of 1 178.9 thsd UAH, by 9% higher than for 1 quarter of last year.

Ratios of the Concern operation for each quarter separately show the positive dynamics of work starting from January of 2008. In January – March 2008 the Concern got better financial results than in last two quarters. Beginning from the third quarter of 2007, EBITDA began to decline due to government control of prices on bakery products. In the third and fourth quarters of 2007 the Company had net losses. In 4th quarter of 2007 the Concern got negative value of EBITDA. 2008 year began with positive results of the Company operation.

Concern Khibprom. Review of the company performance for 1 Q 2008

Financial ratios of OJSC "Concern Khibprom" for 1 Q. 2007 – 2008

Index	Period	1 Q. 2007	1 Q. 2008
Gross margin, %		22.1%	18.1%
Net margin, %		1.6%	1.1%
EBITDA margin, %		12.4%	7.5%
ROE, %		3.9%	-0.97%
Own equity share, %		42%	50%
Debt financing share, %		46%	32%
Debt-to-income		49%	48%
EBITDA / Financial expenses		1.7	2.0
EBITDA / Net debt		4.7	8.2
Working capital, thsd. UAH		117 723.8	124 232.0
Working capital coverage, %		170%	116%
Current liquidity ratio		2.9	2.0

Basic changes in balance ratios

Cost of fixed assets for 1 Q of 2008 grew almost in two times to 220.8 mio UAH. Such increase took place mainly due to revaluation of fixed assets. Market price of property complexes of bread-baking plants, shops and land plots, purchased in 2004-2005, considerably grew since their acquisition. As a result of revaluation, information coefficient of consolidated balance of the Concern was improved, since fixed assets were represented at market price.

Revaluation of the fixed assets was represented in equity as increase of line "Other additional capital". It entailed growth of equity by 58% to 281.0 mio UAH. Revaluation of assets enabled to define real index of financial stability of the Company. So share of assets, financed with equity, amounted to 50.1% (42.3% at the beginning of quarter).

In first quarter of 2008, credit portfolio of banks diminished by 3% to 115.8 mio UAH. Such decline was caused mainly by redemption of circulating credit of FUIB bank. In general, the size of financial debt (on credits and bonds) grew by 2% to 180.3 mio UAH owing to increase of debt on bonds. In the first quarter Concern Khibprom placed B and C series bonds, which were earlier bought out, to the amount of appr 8.5 mio UAH.

Portfolio of outlets of Khibprom grew by 2 to 82 shops, including 48 branded shops Khibna Khata. Expansion of own shops network will allow the Company both to improve margin ratios and support sale of products of bread-baking plants.

At the same time with the increase of amount of shops, volumes of supplies for realization in shops were raised. The volume of commodity supplies of the Concern grew by 136% to 5 950.0 thsd UAH.

Expansion of production of goods in higher price segment is one of the basic tasks of the Concern. The strategic plan of the Company is development of production of the frozen bakery goods – products with longer shelf-life and with higher margin. Plans include construction of new plant, which will have production of the frozen ready-to-cook foods as specialization. In the first quarter, there were signed agreements to purchase two lines on production of such wares for 3 mio EUR. The lines should be put into operation in 2009.

Concern Khibprom. Review of the company performance for 1 Q 2008

Consolidated balance sheet (thsd. UAH)

ASSETS	31.03.07	31.12.07	31.03.08
I. Fixed assets	106 722,1	200 139,5	306 115,2
Intangible assets, residual value	518,0	599,4	827,2
Construction in progress	4 106,6	15 261,6	12 101,5
Property, plant and equipment, residual value	101 918,0	113 108,2	220 813,3
Long-term financial investments that accounted according to equity position method other financial investment	15,0	69 915,9	71 119,3
Long-term accounts receivable	101,5	130,2	129,6
Deferred tax assets	63,0	1 124,2	1 124,3
Goodwill			
II. Current assets	180 442,3	220 033,9	254 572,7
Production inventory	15 935,2	16 447,9	14 769,5
Work in progress	7,4	4,3	3,2
Finished production	205,2	447,0	260,5
Goods	222,5	317,3	427,2
Notes receivable	13 507,1	2 526,8	5 950,8
Trade accounts receivable		431,0	431,0
Account receivables under settlements: budget advances	19 752,2	35 242,5	41 210,3
accrued income	3 972,1	1 858,2	1 024,5
Other current accounts receivable	13 326,2	8 045,6	8 980,8
Current financial investments	29 445,2	89 371,4	98 958,7
Cash and cash equivalents	75 222,0	49 965,6	71 706,1
Other current assets	5 285,2	6 281,2	3 309,8
Other current assets	3 562,0	9 095,1	7 540,3
III. Prepaid expenses	1 637,0	445,9	498,0
TOTAL ASSETS	288 801,4	420 619,3	561 185,9
EQUITY AND LIABILITIES	31.03.07	31.12.07	31.03.08
I. Equity	121 825,0	177 880,4	280 959,3
Share capital	90 683,5	150 000,0	150 000,0
Additional paid-in capital	15,0	15,0	15,0
Other additional capital	13 878,3	13 824,4	115 722,4
Reserve capital	3 201,1	3 201,1	7 523,9
Retained earnings	13 399,3	10 187,5	7 045,6
Treasury capital	647,8	652,4	652,4
Minority interest	44,8	1 509,4	2 100,9
II. Reserves for future expenses	23,7	1 503,3	2 100,9
Personnel expenses reserves	21,1	6,1	
Other reserves	104 257,9	140 122,2	149 885,9
Budget financing	36 518,5	83 861,8	85 435,8
III. Long-term liabilities	67 393,5	56 260,4	64 450,0
Long term bank loans	299,0		0,1
Other long-term financial liabilities	46,9		
Deferred tax liabilities	62 673,7	101 107,3	128 239,8
IV. Current liabilities	22 454,0	26 023,1	22 023,1
Short-term bank loans	6 702,5	9 823,7	8 371,0
Current portion of the long-term debt	1 585,0	1 771,3	1 585,1
Notes payable	16 935,3	24 021,5	29 956,3
Trade accounts payable			
Accounts payable under settlements: advances received: budget insurance	7 301,9	4 775,6	2 416,8
wages and salaries	679,4	1 031,8	861,4
owners	11,1	39,0	0,1
Other current liabilities	1 042,6	1 513,4	1 756,8
Other current liabilities	2 525,8	3 306,0	3 727,8
Other current liabilities	7,3	6,5	6,5
Other current liabilities	3 428,8	28 795,4	57 534,9
V. Deferred income			
TOTAL EQUITY AND LIABILITIES	288 801,4	420 619,3	561 185,9

Concern Khibprom. Review of the company performance for 1 Q 2008

Consolidated income statement of OJSC "Concern Khibprom" (thsd. UAH)

Item	31.03.07	31.12.07	31.03.08
Sales revenue	81 458,3	450 281,7	128 808,7
Value-added tax	12 272,0	64 876,2	20 137,7
Excise tax			
Other revenue deductions	55,3	1 625,4	1 853,7
Net sales revenue	69 131,0	383 780,1	106 817,3
Cost of the goods sold	53 866,9	321 734,5	87 491,2
Gross:			
Profit	15 264,1	62 045,6	19 326,1
Loss			
Other operating income	3 230,0	81 888,4	2 284,6
Administrative expenses	6 242,5	27 388,8	10 075,1
Selling expense	9 136,7	41 431,5	12 358,8
Other operating expenses	5 075,6	88 016,8	3 599,2
Operating results:			
Profit			
Loss	1 960,7	12 903,1	4 422,4
Income from investments in equity		2 445,3	1 203,4
Other financial income	43,9	214,5	626,9
Other income	9 148,1	84 151,4	22 811,6
Financial expenses	4 961,3	14 329,3	3 940,2
Loss from investments in equity		50,0	
Other expenses	1 032,6	62 045,2	15 081,2
Ordinary results before taxes:			
Profit	1 237,4		1 198,1
Loss		2 516,4	
Income tax on the ordinary income	-168,5	364,0	-35,2
Ordinary results:			
Profit	1 068,9		1 162,9
Loss		2 152,4	
Extraordinary :	11,7	106,7	16,0
Tax on the extraordinary income			
Net:			
Profit	1 080,6		1 178,9
Loss		2 045,7	

Concern Khibprom. Review of the company performance for 1 Q 2008



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