

# Overview of the Issuer OJSC «Concern Khliprom» following the results of 1H 2007

## SUMMARY

September 2007

### Bonds:

Second issue	Series B - 8 500 000 UAH Series C – 8 500 000 UAH Coupon rate series B, C – 16%	Third issue	Series D – 50 000 000 UAH Coupon rate – 12%
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## MAIN CONSOLIDATED FINANCIAL INDICATORS OF OJSC «CONCERN KHLIBPROM»

### Summary

#### Balance Sheet Ratios

Thous. UAH	30.06. 2006	2006	30.06. 2007
<b>Assets</b>			
1. Fixed assets	80 624	103 092	178 570
2. Current assets	164 021	208 861	145 772
3. Prepaid expenses	345	582	2 793
<b>TOTAL ASSETS</b>	<b>244 990</b>	<b>312 535</b>	<b>327 135</b>
<b>Liabilities</b>			
1. Equity	119 928	120 754	183 797
2. Reserves for future expenses	102	56	618
3. Long-term liabilities	69 188	110 032	72 067
4. Short-term liabilities			
5. Deferred income			
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>244 990</b>	<b>312 535</b>	<b>327 135</b>

#### Income statement

Thous. UAH	6m.2006	2006	6m.2007
Net profit	138 454	302 699	158 232
Gross profit	26 234	59 927	27 899
Net profit	4 956	5 174	4 940
INcome tax	139	1 841	415
Interest	3 592	9 996	9 021
Depreciation	2 962	6 833	4 778
EBITDA	11 649	23 843	19 154

#### Financial indices

	6m.2006	2006	6m. 2007
Gross profitability, %	18,9	19,8	17,6
Net profitability, %	3,6	1,7	3,1
EBITDA margin, %	8,4	7,9	12,1
ROE, %	6,1	6,4	3,2
EBITDA / All liabilities	0,09	0,12	0,13
EBITDA / Financial expences	3,2	2,4	2,1
Equity ratio, %	49	39	56
Current ratio	2,9	2,6	2,1

- Following the results of 1H 2007, the companies of Concern Khliprom increased volumes of production in physical indicators – by 5% to 53 thousand tons, in money terms – by 20% to UAH 111,5 mio.
- Bread bakery and confectionery production capacity of the subsidiaries of the Concern increased from 278 t/ day in 1H 2006 to 293 t/ day in H 2007.
- Net profit of the Concern increased by UAH 19,8 mio (14,3%) in comparison with 1H 2006, and amounted to UAH 158,2 mio. Regulative actions of the government concerning pricing in bread and bakery market became restrictive cause for growth of income part.
- Credit portfolio of the Concern, following the results of six months, decreased by UAH 30,7 mio. Debts of such liabilities decreased by UAH 12,7 mio. (bonds B and C series were redeemed) after measures on redemption of the part of bonds were taken.

### The latest news of OJSC „CONCERN KHLIBPROM”

- For 5-8 per cent periods on bonds D series Concern Khliprom announced the rate of per cent profit in amount of 12% per year.
- On the 27 of August, 2007 as part of the offering “Concern Khliprom” purchased bonds series D in amount of 1 715 pcs. of total value UAH 1,7 mio.
- With a purpose of improving the corporate governing of the Concern, on the 31 of August at the General Shareholders Meeting of OJSC “Concern Khliprom” the personal staff of board was formed, including present general director and 4 members of the board.
- At the bakery plant State-owned Enetrprise (SoE) “Rivnekhlib” the first line of reconstruction project of total value UAH 10 mio is already finished. Integrated repair according to up-to-date energy save conditions, ecology and work conditions improvement was finished. Two up-to-date tunnel lines and other bakery equipment was installed.
- In May, the work of English consultants on production optimization processes, logistics, sales points was started at the Concern. As a result of such work performed the company will have a necessary preparation for passing certification on ISO and HACCP standards.

## **Overview of the Issuer OJSC«Concern Khibprom» following the results of 1H 2007**

### **1. Market environment**

Situation on raw materials market in the 1H 2007 was not favorable for bread and bakery industry due to significant growth of price of the main type of raw materials – wheat and rye grain. Growth of grain price in Ukraine is connected with the price growth in the world market, such increasing price trends will be also kept in the near future. That is why the significant decline of grain prices in the domestic market most likely will not occur, bread producers will have to work with existing prices, and to prepare for the probable increase of their level in prospect.

Active grain purchases made by exporters and expectations for gross grain yield volumes decrease caused the significant price growth in the first six months of 2007 in Ukraine. According to data of APK-inform, prices of 3-rd class wheat in January-June increased by 39%, 4-th class wheat – by 38%. So, at the beginning of July, the price of 3-rd class wheat was 224\$ per ton, 4-th class - 214\$. There was almost no rye in the domestic market due to very poor crop in 2006. During January-June grain owners gradually raised prices, but the major part of them suspended sales of grains in expectation of its further possibility to be sold at much higher prices.

Bread and bakery production volumes of the companies, which provide data to statistics bodies (mini bakeries' and shadow sector producers' indicators are not included) in the 1H 2007 were equal to 923 thousand tons. Thus, traditional decrease of bread production volumes takes place in Ukraine - the volume decreased by 8%, as compared to the same period of 2006.

In the second quarter of 2007, as a result of production cost increase a lot of bakeries started to increase prices for their products. Such step of the producers was caused by the objective factors: growth of expenses for raw materials (flour especially), energy supply, municipal services payments and salaries.

Political situation in the country in the pre-election period made a negative effect on financial state of the bread market players – with the aim of demonstration of their capacity to function, during June the government took a line of measures, which resulted in return of prices of “social sorts” of bread to the previous level. By Resolution from the 20 of June, 2007 the government gave an authority to local administrations to regulate bakery plants' profitability.

We expect that the problem of regulation of bread and bakery products prices and regulation of profitability will be only temporary. After the elections to the Verkhovna Rada are over and the new government is formed, the regulatory impact of the government will weaken, prices of bread and bakery products will grow in all the regions of Ukraine due to growing expenses for bread production and market drivers.

## Overview of the Issuer OJSC«Concern Klibprom» following the results of 1H 2007

### 2. OPERATING ACTIVITY

Despite of the tendency among large bread and bakery producers to decrease volumes of bakery products output (according to the official statistics data), the subsidiaries of Concern Klibprom continue to perform growth in production indices. Following the results of 1H 2007, production volumes increased as in physical indicators – by 5% to 53 thousand tons, so in money terms – by 20% to UAH 111,5 mio. The growth was achieved mostly due to putting new bakery equipment into operation, which took place in 2006.

Bread production, which is the main source of income, grew by 18% (by UAH 12,1 mio) to UAH 80,7 mio. Such growth occurred due to positive work of all companies, nearly half of the growth volume occurred due to positive operation of plants SOE “Vinnytsiaklib”, “Lviv bakery plant №5” and “Kalush bakery plant”.

**Table 1 Bread and bakery production of OJSC “Concern Klibprom” for first six months of 2005-2007**

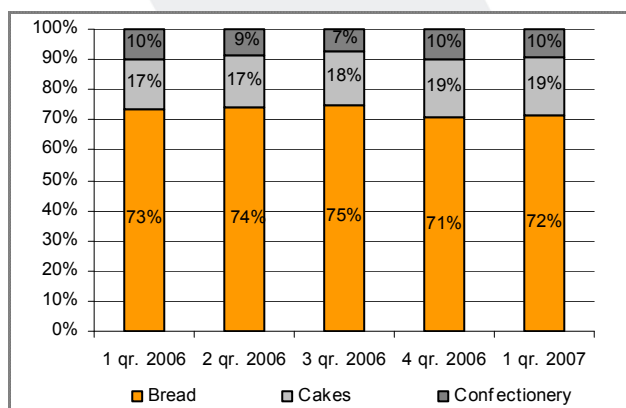
Production	Period	6m. 2005		6m. 2006 <sup>1</sup>		6m. 2007	
		ths. ton	ths. UAH. <sup>2</sup>	ths. ton	ths. UAH. <sup>3</sup>	ths. ton	ths. UAH. <sup>4</sup>
Bread		40,9	58,6	44,5	68,5	45,9	80,7
Cakes		3,9	11,1	4,7	15,8	5,7	21,3
Confectionery		0,8	5,4	1,2	8,5	1,5	9,5
<b>Total</b>		<b>45,6</b>	<b>75,1</b>	<b>50,4</b>	<b>92,9</b>	<b>53,0</b>	<b>111,5</b>

Source: OJSC «Concern Klibprom»

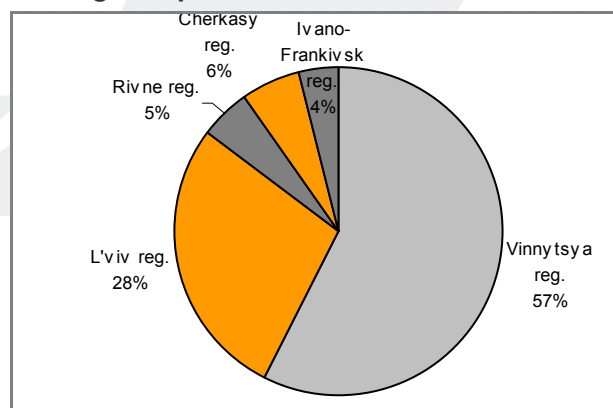
Tend of fancy products share in general income from products sale to grow continues – following the results of the 1H 2007 it was equal to 19%, as compared with 17% in the same period of the previous year. Output volume of fancy products in money terms increased by 35% to 21,3 thousand UAH. 70% fancy products increase were received from operation of bakery plants located in the following regional centres: Subsidiary “Vinnytsiaklib” and Subsidiary “Lviv bakery plant №5”.

Output of confectioneries grew by 12% (UAH 1,0 mio) to UAH 9,5 mio. Such increase occurred due to confectionery production growth by the bakeries “Vinnytsiaklib”, “Lviv bakery plant №5” and Bar bakery plant.

**Production structure in 1H 2007.**



**Regional production structure in 1H 2007**



Source: OJSC «Concern Klibprom» Visualisation: «Universal Investment Group»

<sup>1</sup> Starting from 2005 production of long loaf is included in category “Bread”

<sup>2</sup> Indicators do not include VAT

<sup>3</sup> Indicators do not include VAT

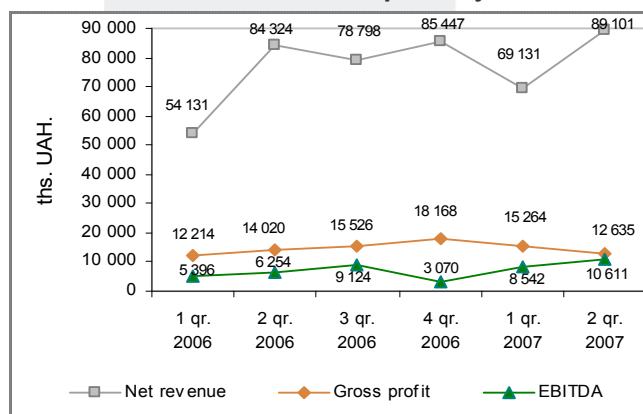
<sup>4</sup> Indicators do not include VAT

## Overview of the Issuer OJSC«Concern Khibprom» following the results of 1H 2007

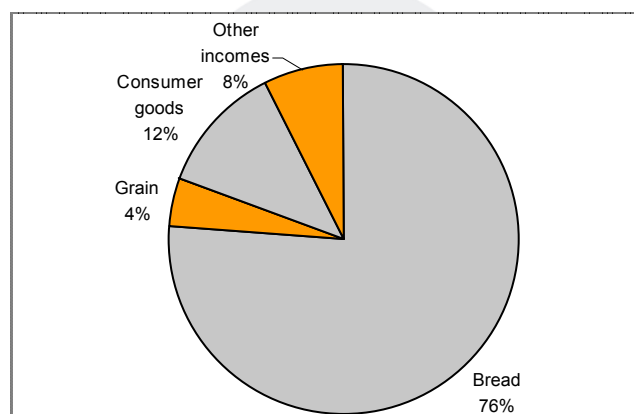
### 3.FINANCIAL PERFORMANCE OF THE COMPANY

Net income of the Concern in 1H 2007 increased in comparison with the same period of 2006 by UAH 19,8 mio. (14,3%) and was equal to UAH 158,2 mio. The main cause of achieving such growth rate is growth of bakery and confectionery products sales volumes, which amounted to 70% of consolidated income of the Concern. The rest of income was received from sale of grains, trade of consumer goods in sales points and other incomes.

**Dynamics of Net income, Gross profit and EBITDA in 2006-1H 2007 quarterly**



**Structure of income from products sale in 1H 2007**



Source: OJSC «Concern Khibprom» Visualisation: «Universal Investment Group»

Application of administrative control in the bread market and production costs growth caused a slight decrease of Gross profitability level from 18,9% in the first six months of 2006 to 17,6% in the analyzed period. Costs of production increased at somewhat higher rates than Net revenue – by 16%. However it is expected that starting from the IV quarter (after the elections to the Verkhovna Rada of Ukraine), the government policy will be more liberal to pricing in the bread market, and gross profitability in this period will exceed 20%.

Significant decline of the Net debt liabilities/EBITDA index was a result of the considerable financial liabilities volume decline in the first six months of 2007 and its value, equal to 3,1 shows a good ability of the Concern to pay its debts.

**Table 2 Financial performance of OJSC «Concern Khibprom»**

Indicators	6m.2006	2006	6m.2007
Net revenue, ths. UAH.	138 454,4	302 699,0	158 232,4
Net income, ths. UAH.	4 956,4	5 174,0	4 939,9
EBITDA, ths. UAH.	11 649,4	23 843,0	19 153,5
Gross profitability, %	18,9	19,8	17,6
Net profitability, %	3,6	1,7	3,1
EBITDA margin, %	8,4	7,9	12,1
ROE <sup>5</sup> , %	6,1	6,4	3,2
Net debt liabilities / EBITDA <sup>6</sup>	3,0	5,7	3,1

Source: OJSC «Concern Khibprom» Calculations: «Universal Investment Group»

<sup>5</sup> ROE is calculated as ratio of company's net profit to average value of equity as of beginning and end of the year

<sup>6</sup> Net debt liabilities / EBITDA is calculated as ratio of percent debt liabilities less cash and equivalents at the end of period to EBITDA for last 4 quarters

## Overview of the Issuer OJSC«Concern Khibprom» following the results of 1H 2007

### 4. BALANCE SHEET INDICES OF THE COMPANY AND INVESTMENT ACTIVITIES

Capital costs in the first six months were made at somewhat lower rates, than in 2006 as the significant part of means was used for loans payment and bonds redemption.

Initial value of fixed assets within the first six months of 2007 increased by UAH 8,4 mio. Mainly due to repairs (UAH 3,9 mio), equipment purchase (UAH 3,3 mio) and vehicle transport purchase (UAH 0,7 mio). The largest "recipients" of investments were companies "Rivnekhlib" (UAH 1,8 mio), "Lviv bakery plant №5" (UAH 1,5 mio), and "Vinnytsiakhlib" (UAH 1,1 mio). Besides that, "Rivnekhlib" plant reconstruction project is implemented at the present time, as part of the first line of which in the first six month works on public welfare were held, overhaul of water supply systems, sewerage and gas pipeline were made, new equipment was installed.

Significant change of assets structure, as of 30.06.2007 (decrease of current assets and growth of fixed assets) occurred due to transfer of shares value of OJSC "Vinnytsiakhlib" from current assets into the fixed assets section. Such change is related to the intentions to continue keeping controlling block of shares of the company, which owns assets of bakeries in Vinnytsia city. Such operation almost hasn't marked on the company's liquidity index, it still remains rather high – 2,1.

According to the decision on statutory fund increase, made by the main shareholder of the Concern – company F.I.E.H. Establishment in the second quarter of 2007, UAH 58,1 mio were transferred to "Concern Khibprom" as a payment for shares of additional issue. Such operation is shown in the balance sheet in line "Other additional capital" of the liabilities. As the result the share of equity increased to 56,2%.

**Table 3 Balance sheet indicators of OJSC «Concern Khibprom»**

Indicators	30.06.2006	31.12.2006	30.06.2007
Total assets	244 989,8	312 534,5	327 134,8
Fixed assets	80 623,6	103 092,0	178 570,2
Current assets	164 021,5	208 860,7	145 771,9
Equity	119 928,2	120 754,1	183 796,7
Long-term liabilities	69 187,7	110 031,5	72 066,9
Current liabilities	55 771,6	81 693,2	70 653,3
Equity ratio, %	49,0	38,6	56,2
Current ratio	2,9	2,6	2,1

Source: OJSC «Concern Khibprom» Calculations: «Universal Investment Group»

Credit portfolio of the Concern following the results of the six months decreased by UAH 30,7 mio. That happened owing to turnover loans redemption by UAH 5,9 mio and redemption of investment credits by UAH 24,8 mio. After taking measures on redemption of the part of bonds, liability for such debts decreased by UAH 12,7 mio (bonds series B and C were redeemed). Thus long term liabilities index (long term debt to equity ratio) as of 30.06.2007 was equal to 0,39, which reflects the high level of financial stability of the Company.

## Overview of the Issuer OJSC«Concern Khibprom» following the results of 1H 2007

### 5. CONSOLIDATED BALANCE SHEET of OJSC “Concern Khibprom” (ths. UAH.)

ASSETS	30.06.06	31.12.06	30.06.07
<b>I. Fixed assets</b>	<b>80 623,6</b>	<b>103 092,0</b>	<b>178 570,2</b>
Intangible assets, residual value	351,9	507,0	493
Construction in progress	1 955,5	2 085,6	6 923,2
Property, plant and equipment, residual value	77 708,0	100 295,8	10 3554,0
Long-term financial investments:			
accounted by equity method			67 400,5
other financial investments	15,0	15,0	15,0
Long-term accounts receivable	115,8	125,8	121,5
Deferred tax assets	476,6	62,0	63,0
Other fixed assets	0,8	0,8	
<b>II. Current assets</b>	<b>164 021,5</b>	<b>208 860,7</b>	<b>145 771,9</b>
Production inventory	10 762,1	22 853,9	12 637,5
Livestock		8,1	6,6
Work in progress	340,0	271,8	330,5
Finished production	427,9	222,9	272,0
Goods	2 439,0	13 996,5	3 896,8
Notes receivable	6 277,2		431,0
Trade accounts receivable :	27 655,8	28 078,3	20 705,9
Account receivables under settlements:			
budget	1 559,8	4 802,2	2 416,7
advances	8 711,0	16 131,1	12 829,5
Other current accounts receivable	21 022,0	29 419,6	81 145,6
Current financial investments	77 282,1	75 421,4	1 584,3
Cash and equivalents:	3 647,9	12 549,7	6 630,6
Other current assets	3 896,7	5 105,2	2884,9
<b>III. Prepaid expenses</b>	<b>344,7</b>	<b>581,8</b>	<b>2 792,7</b>
<b>TOTAL ASSETS</b>	<b>244 989,8</b>	<b>312 534,5</b>	<b>327 134,8</b>
<b>LIABILITIES AND EQUITY</b>	<b>30.06.06</b>	<b>31.12.06</b>	<b>30.06.07</b>
<b>I. Equity</b>	<b>119 928,2</b>	<b>120 754,1</b>	<b>183 796,7</b>
Share capital	90 683,5	90 683,5	90 683,5
Additional paid-in capital	15,0	15,0	15,0
Other additional capital	13 927,5	13 887,8	72 076,7
Reserve capital	3 201,1	3 201,1	3 201,1
Retained earnings	12 101,1	12 318,7	17 173,1
Differences in value of securities upon consolidation		648,0	647,3
<b>II. Reserves for future expenses</b>	<b>102,3</b>	<b>55,7</b>	<b>617,9</b>
Personnel expenses reserves	46,8	3,2	570,1
Other reserves	55,5	52,5	14,1
Budget financing			33,7
<b>III. Long-term liabilities</b>	<b>69 187,7</b>	<b>110 031,5</b>	<b>72 066,9</b>
Long term bank loans	51 754,4	42 306,7	16 956,8
Other long-term financial liabilities	17 143,9	67 425,8	54764,2
Deferred tax liabilities	289,4	299,0	299,0
Other long-term liabilities			46,9
<b>IV. Current liabilities</b>	<b>55 771,6</b>	<b>81 693,2</b>	<b>70 653,3</b>
Short-term bank loans	3 100,6	37 860,5	31 701,0
Current portion of the long-term debt			742,8
Notes payable	7 382,4	2 588,8	2644,5
Trade accounts payable	23 648,6	28 397,1	18 660,9
Accounts payable under settlements:			
advances received:	8 280,2	6 675,8	8247,9
budget	949,3	801,2	736,9
off-budget payments		0,9	11,1
insurance	886,1	929,2	1 190,6
wages and salaries	2 220,4	2 491,0	2 785,1
owners	7,3	7,3	6,5
Other current liabilities	9 296,7	1 941,4	3 926,0
<b>V. Deferred income</b>			
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>244 989,8</b>	<b>312 534,5</b>	<b>327 134,8</b>

## Overview of the Issuer OJSC«Concern Khibprom» following the results of 1H 2007

### 6. Consolidated income statement of OJSC “Concern Khibprom” (ths. UAH)

Item	6 m. 2006	12 m. 2006	6 m. 2007
Sales revenue	162 755,3	357 569,9	185125,3
Value-added tax	24 248,0	54 689,4	26623,0
Excise tax		0,2	
Other revenue deductions	52,9	181,4	269,9
<b>Net sales revenue</b>	<b>138 454,4</b>	<b>302 698,9</b>	<b>158 232,4</b>
Cost of the goods sold	112 220,7	242 771,7	130333,5
<b>Gross:</b>			
<b>Profit</b>	<b>26 233,7</b>	<b>59 927,2</b>	<b>27 898,9</b>
<b>Loss</b>			
Other operating income	10 682,9	18 110,2	4700,6
Administrative expenses	11 141,8	23 527,6	12157,0
Selling expense	12 921,4	29 739,3	19559,1
Other operating expenses	11 626,3	20 026,5	6912,6
<b>Operating results:</b>			
<b>Profit</b>	<b>1 227,1</b>	<b>4 744,0</b>	
<b>Loss</b>			<b>-6 029,2</b>
Income from investments in equity			
Other financial income	4,5	109,9	86,9
Other income	23 567,3	70 516,8	77271,6
Financial expenses	3 592,2	9 995,5	9021,0
Loss from investments in equity			
Other expenses	16 111,2	58 360,6	56965,3
<b>Ordinary results before taxes:</b>			
<b>Profit</b>	<b>5 095,5</b>	<b>7 014,6</b>	<b>5 343,0</b>
<b>Loss</b>			
Income tax on the ordinary income	139,1	1 840,6	414,8
<b>Ordinary results:</b>			
<b>Profit</b>		<b>5 174,0</b>	<b>4 928,2</b>
<b>Loss</b>	<b>4 956,4</b>		
Extraordinary :			11,7
Tax on the extraordinary income			
<b>Net:</b>			
<b>revenues</b>	<b>4 956,4</b>	<b>5 174,0</b>	<b>4 939,9</b>
<b>expenses</b>			

**Overview of the Issuer OJSC«Concern Khibprom» following the results of 1H 2007**



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