

Universal investment group

quarterly review of the bond issuer activities

October 2008

Concern Khibprom

PRODUCTION AND SALES OF BAKERY PRODUCTS AND CONFECTIONARY



Overview

In 2nd quarter of 2008 group of enterprises of Concern Khibprom was extended by three additional assets: by two bread-baking plants and complex mill/elevator that are located in Lviv region. In the same period the Concern began to consolidate in its statement financial results of these three assets. The process of its acquisition began in the second half of 2007 and completed in the first half of 2008. From one side new acquisitions entailed absolute growth of financial debt and increase of Net debt/EBITDA ratio. From other side they had a positive effect on EBITDA in 2nd quarter of 2008 and will have an increasing influence in next periods.

Net debt/EBITDA ratio of the Concern has a sufficiently high value – 7.2 that is connected from one side with realization of considerable capital investments in acquisition of additional assets. Other considerable factor of maintenance of the ratio at high level is influence of the understated EBITDA ratio, which was received in the second half of 2007 and became a result of adjusting of prices on products from the side of state organs. However, in the structure of balance financial debt occupies not high share of merely 38%. The share of equity capital of the Concern amounted to 49%.

EBITDA for the period grew by 33% as compared to January-June of the last year and made UAH 25.4 mln. EBITDA margin was 12.1% that is on the same level as for analogical period of last year. Presently two factors of EBITDA growth are subsequent increase of average price of tone of production and effect of synergy as a result of acquisition of additional assets.

In June as a result of acquisition of additional assets, general actual daily production capacity of bread-baking plants of Concern Khibprom grew to 392 tones. On results of 1st half-year of 2008 the enterprises of Concern Khibprom increased production in physical terms - by 28.1% to 67.9 thsd tones, in a money terms - by 82.2% to UAH 203.2 mln. Net revenue of the Concern for 1 half-year of 2008 grew in comparison with the analogical period of 2007 by 32.4% and made UAH 209.4 mln.

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Bonds:

Series B - UAH 8.5 mln, coupon rate 17.0%

Series C – UAH 8.5 mln, coupon rate 18.0%

Series D – UAH 50 mln, coupon rate 17.0%

Income statement ratios

UAH mln.	2007	6 m.2007	6 m.2008
Net revenue	383.8	158.2	209.4
Gross profit	62.0	27.9	41.5
Net profit	-2.0	4.9	3.7
Income tax expenses		0.4	0.5
Interest	14.3	9.0	8.7
Depreciation	9.9	4.8	12.5
EBITDA	22.2	19.2	25.4

Financial ratios

	2007	6 m. 2007	6 m. 2008
Gross margin , %	16.2	17.6	19.8
Net margin , %	-0.5	3.1	1.8
EBITDA margin, %	5.8	12.1	12.1
ROE	-1.4	3.4	-1.4
Equity ratio , %	42.3	56.2	48.8
Current ratio	2.2	2.1	2.1

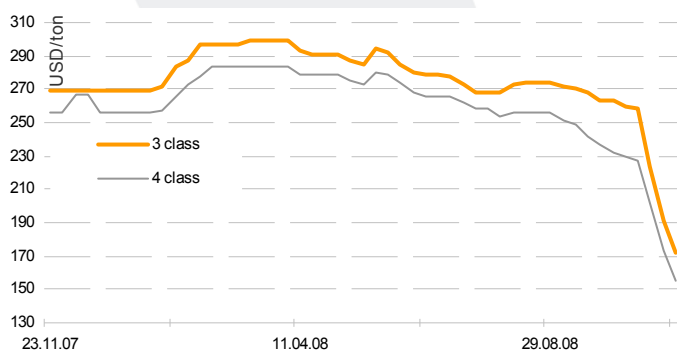
Concern Klibprom. Review of the company performance for 6 m. 2008

Situation on raw materials market

Current data about the volume of harvest grain crops and grain legumes testifies that in 2008 Ukraine will have the record grain harvest - about 50.0 mln tones of initial mass. According to note of Ministry of agrarian policy, crop of wheat and rye is already completed in Ukraine. In initial mass 26,729 thsd tones of wheat and 1,047 thsd tones of rye were collected that means an increase by more than 50% on each of cultures. The harvest of wheat of 2008 is characterized by diminishing of share of high-quality food grain and considerable losses of grain at collection and processing. The share of food grain (1-5 class) will make at least 30% in the general volume of the collected foodstuffs.

Decreasing price tendencies dominate on the market of food wheat presently. It is caused by a number of factors. Presently in Ukraine there are traditionally lowest wheat prices in marketing year that is predefined by seasonality of prices on grain. Other factor of price decrease is the limited capacities of grain storage that forces grain owners, which do not have such capacities, to sell products for lower price. The third powerful factor is a presence of high volume of supply on the external market that decreased world grain price that reduced purchase activities of Ukrainian grain exporters. Such price situation on the raw material market is favorable to the Issuer and creates for Concern Klibprom a potential of EBITDA margin increase at the current level of price on final products.

Dynamics of wheat price in 2007/2008 MY and beginning 2008/2009 MY



Source: APK – inform Visualization: UIGroup

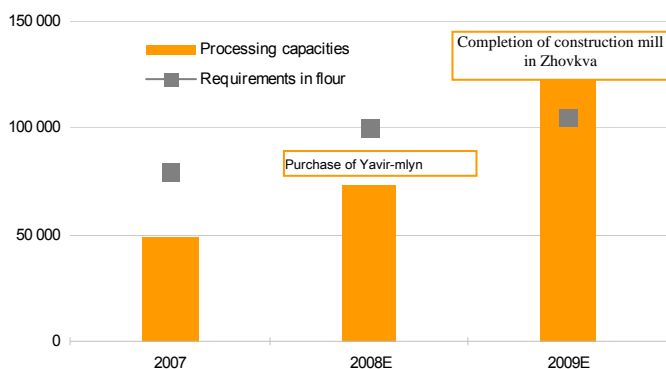
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Consolidation of new assets

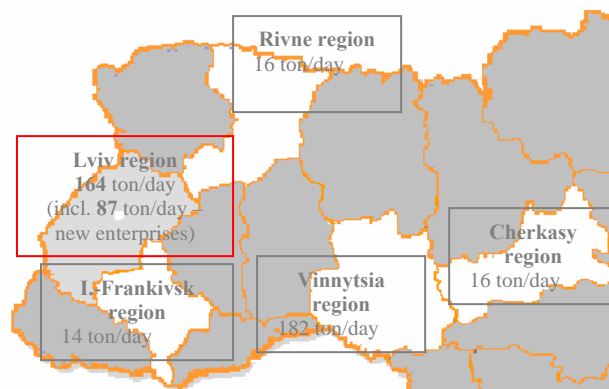
During 2nd Q. of 2008 Concern Klibprom completed consolidation of three assets: mill/elevator complex and two bread-baking plants in Lviv region. Starting from 2 Q. of 2008 operating results and property of these companies began to be represented in statements of the Concern. Acquisition of additional assets allowed the Company to increase production volumes and receive potential for improvement of financial ratios.

With acquisition of Yavir-mlyn LLC Concern Klibprom got control above mill/elevator complex in Lviv region. Usage of additional capacities on processing of grain (grind) to the amount of 130 tones of grain per day will allow the Concern to increase operating margin as a result of increase of share of flour of own production in the structure of the general use of this type of raw material. In addition it will allow providing bread-baking plants of Lviv region - the second region by volume of production capacities – by own flour. Putting to operation of mill in Zhovkva city (Lviv region) with processing capacity of 300 tones of grain per day will allow the Company to provide own operating bread-baking plants completely with flour of own production.

Processing capacities of grain by mills of Concern Klibprom comparing with forecast requirements in flour



Average daily capacities of Concern Klibprom in June



Source: Concern Klibprom Visualization: UIGroup estimations

With acquisition of Yavir-mlyn, the Concern also increased capacities of storage of grain crops to 53.7 thsd tones. Elevator which is included in the complex of Yavir-mlyn allows storing 4.2 thsd tones of grain. Expansion of storage capacities is important for the Concern taking into consideration inventory management.

Newly purchased assets began to be represented in balance of the Concern, and as a result, residual value of fixed assets for second quarter of 2008 grew by UAH 142.8 mln to UAH 363.7 mln. In addition, Concern Klibprom began to consolidate assets of OJSC Vinnytsiaklib (Concern owns 50.2% of the shares). Hereupon, economic complex of two bread-baking plants, which are owned by OJSC Vinnytsiaklib, leased by DP Vinnytsiaklib began to be consolidated in balance of Concern Klibprom. Totally from the beginning of year fixed assets grew by UAH 250.5 mln.

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Consolidation of new assets allowed increasing of products sales considerably. In general, for 6 months of 2008 enterprises of OJSC Concern Khibprom realized 67.9 thsd tones of bakery and pastry products to the amount of UAH 203.2 mln (without VAT). For the first half-year of 2008 production and sales increased by 28.1% in physical terms and by 82.2% in money terms comparing with analogical period of last year.

Production of bread and bakery products by plants of OJSC Concern Khibprom for 6 m. 2007-2008

	6m. 2007		6m. 2008		6m. 2008/6m.2007	
	thsd tones	mln UAH (without VAT)	thsd tones	mln UAH (without VAT)	physical terms	money terms
Bread	45.9	80.7	58.9	147.7	28.3%	83.0%
Cakes	5.7	21.3	6.5	34.4	14.0%	61.5%
Confectionary	1.5	9.5	2.5	21.1	66.7%	122.1%
Total	53.1	111.5	67.9	203.2	27.9%	82.2%

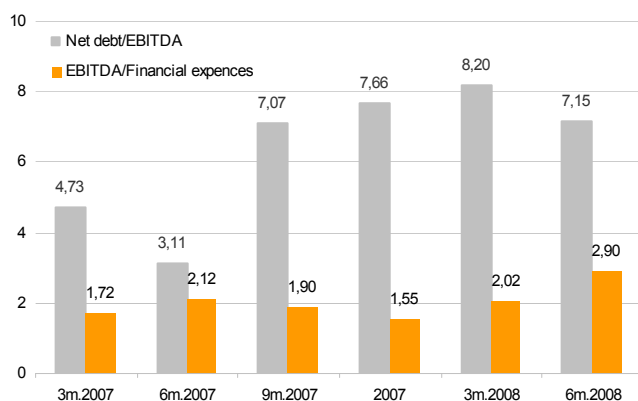
Source: OJSC Concern Khibprom

EBITDA grew by 33% YoY

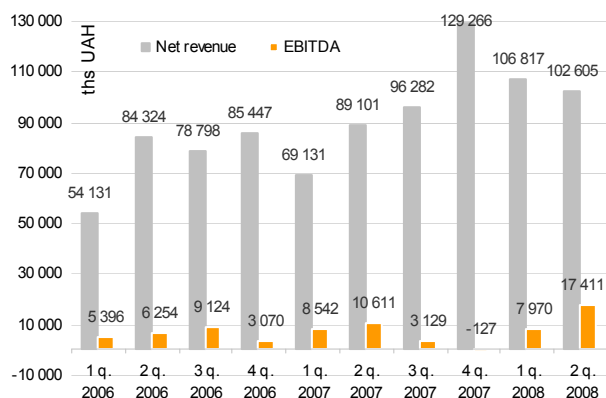
At the increase of output volumes, the Concern increased EBITDA margin to last year's level – 12.1% after a decline of this ratio in past three quarters. Thus, EBITDA grew by 33% to UAH 25.4 mln and surpassed the ratio for 2007 by 15%. Increasing of EBITDA margin to last year's level was supported by increase of price on final products in several stages.

Net revenue grew by 36.5% to UAH 252.6 mln, net profit of the Issuer grew by 32.4% to UAH 209.4 mln. Growth rate of net profit is lower than of bakery products sales because other operating incomes decreased considerably in 2008. Gross margin for 1st half-year of 2008 was higher by 2.2 p.p. than in analogical period of last year and amounted 19.8%.

Debt service ratios of Concern Khibprom



Quarterly net profit and EBITDA ratios of Concern Khibprom for 2006-2008, thsd UAH



Source: Concern Khibprom. Visualization: UIGroup.

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After deterioration of operating results of the Concern, beginning from third quarter of 2007 as a result of regulation of price by the institutions of local government, ratios came back to positive trends. Positive influence on growth of EBITDA in the second quarter of 2008 was carried out by the increase of production capacities and also price increase. Thus, EBITDA margin for separately 2nd quarter of 2008 was 17.0% that is considerably higher than for analogical period of last year. Presently there are two factors of subsequent growth of EBITDA: increase of average price of tone of products and effect from acquisition of new assets.

Acquisition of additional assets was completed due to the loan takedown that took place in past periods. Thus, financial debt at the end of 2nd quarter of 2008 amounted to UAH 202.9 mln. Net debt/EBITDA ratio amounted to 7.2 as a result of considerable capital investments in acquisition of additional assets at the end of 2007 - 1st half-year of 2008. However in the structure of balance, financial debt occupies not high share of merely 38%. The share of equity capital of the Concern amounted to 49%.

Financial ratios of OJSC Concern Khibprom for 6 m. 2007 – 2008

Index	Period	6 m. 2007	6 m. 2008
Gross margin, %		17.6%	19.8%
Net margin, %		3.1%	1.8%
EBITDA margin, %		12.1%	12.1%
ROE, %		3.4%	-1.4%
Equity capital share, %		56.2%	48.8%
Debt financing share, %		31.8%	37.6%
Debt / income		168.4%	132.6%
EBITDA / Financial expenses		2.1	2.9
Net debt / EBITDA		3.1	7.2
Working capital, thsd UAH		74 500.7	85 020.7
Working capital coverage, %		47.1%	40.6%
Current liquidity ratio		2.1	2.1

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Appendix: basic ratios definition

Ratios	Definition
Gross margin, %	Gross profit / Net revenue
Net margin, %	Net profit / Net revenue
EBITDA	Net profit + Financial expenses + Income tax + Amortization and depreciation
EBITDA margin, %	EBITDA / Net revenue
ROE, %	Net profit for last 4 quarters / Arithmetical mean of equity capital as of accounting date and as of analogical date of last year
Equity capital share, %	Equity capital / Assets
Debt financing share, %	Net debt / Assets
Debt / income	Long term and short term liabilities / Operating and non-operating incomes
EBITDA / Financial expenses	EBITDA / Financial expenses
Net debt / EBITDA	(Debt before banks and bond holders – Cash and cash equivalents) / EBITDA
Working capital, thsd UAH	Current assets – Current liabilities
Working capital coverage, %	Working capital / Net revenue
Current liquidity ratio	Current assets / Current liabilities

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Consolidated balance sheet of OJSC Concern Khibprom (thsd UAH)

ASSETS	30.06.07	31.12.07	30.06.08
I. Fixed assets	178 570.2	200 139.5	389 299.9
Intangible assets, residual value	493.0	599.4	992.1
Construction in progress	6 923.2	15 261.6	16 036.6
Property, plant and equipment, residual value	103 554.0	113 108.2	363 654.5
Long-term financial investments that accounted according to equity position method	67 400.5	69 915.9	
other financial investment	15.0		2 596.1
Long-term accounts receivable	121.5	130.2	109.0
Deferred tax assets	63.0	1 124.2	1 096.7
Goodwill			4 814.9
II. Current assets	145 771.9	220 033.9	169 568.5
Production inventory	12 637.5	16 447.9	12 516.0
Work in progress	6.6	4.3	1.8
Finished production	330.5	447.0	394.9
Goods	272.0	317.3	643.7
Notes receivable	3 896.8	2 526.8	2 037.7
Trade accounts receivable	431.0	431.0	881.0
Account receivables under settlements: budget	20 705.9	35 242.5	57 934.9
advances	2 416.7	1 858.2	1 615.9
accrued income	12 829.5	8 045.6	21 677.5
Other current accounts receivable	81 145.6	89 371.4	48 893.8
Current financial investments	1 584.3	49 965.6	10 664.2
Cash and cash equivalents	6 630.6	6 281.2	7 162.0
Other current assets	2 884.9	9 095.1	5 145.1
III. Prepaid expenses	2 792.7	445.9	479.2
TOTAL ASSETS	327 134.8	420 619.3	559 347.6
EQUITY AND LIABILITIES	30.06.07	31.12.07	30.06.08
I. Equity	183 796.7	177 880.4	272 873.8
Share capital	90 683.5	150 000.0	150 000.0
Additional paid-in capital	15.0	15.0	15.0
Other additional capital	72 076.7	13 824.4	105 095.5
Reserve capital	3 201.1	3 201.1	7 523.9
Retained earnings	17 173.1	10 187.5	9 587.0
Treasury capital	647.3	652.4	652.4
Minority interest	617.9	1 509.4	3 353.5
II. Reserves for future expenses	570.1	1 503.3	2 473.0
Personnel expenses reserves	14.1	6.1	873.8
Other reserves	33.7		6.7
Budget financing	72 066.9	140 122.2	201 926.0
III. Long-term liabilities	16 956.8	83 861.8	144 997.5
Long term bank loans	54 764.2	56 260.4	54 614.0
Other long-term financial liabilities	299.0		2 314.5
Deferred tax liabilities	46.9		
IV. Current liabilities	70 653.3	101 107.3	81 194.3
Short-term bank loans	31 701.0	26 023.1	3 840.7
Current portion of the long-term debt	742.8	9 823.7	6 567.4
Notes payable	2 644.5	1 771.3	1 874.2
Trade accounts payable	18 660.9	24 021.5	31 561
Accounts payable under settlements: advances received: budget	8 247.9	4 775.6	1 306.5
insurance	736.9	1 031.8	2 260.2
wages and salaries	11.1	39.0	0.0
owners	1 190.6	1 513.4	2 205.8
Other current liabilities	2 785.1	3 306.0	4 909.0
Other current liabilities	6.5	6.5	6.5
V. Deferred income	3 926.0	28 795.4	26 663.0
TOTAL EQUITY AND LIABILITIES	327 134.8	420 619.3	559 347.6

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Consolidated income statement of OJSC Concern Khibprom (thsd UAH)

Item	30.06.07	31.12.07	30.06.08
Sales revenue	185 125.3	450 281.7	252 624.8
Value-added tax	26 623.0	64 876.2	40 673.1
Other revenue deductions	269.9	1 625.4	2 529.1
Net sales revenue	158 232.4	383 780.1	209 422.6
Cost of the goods sold	130 333.5	321 734.5	167 897.2
Gross:			
Profit	27 898.9	62 045.6	41 525.4
Loss			
Other operating income	4 700.6	81 888.4	68 579.9
Administrative expenses	12 157.0	27 388.8	20 155.6
Selling expense	19 559.1	41 431.5	26 662.9
Other operating expenses	6 912.6	88 016.8	74 636.3
Operating results:			
Profit	-6 029.2		-11 349.5
Loss		-12 903.1	
Income from investments in equity		2 445.3	
Other financial income	86.9	214.5	629.5
Other income	77 271.6	84 151.4	96 837.9
Financial expenses	9 021.0	14 329.3	8 738.3
Loss from investments in equity		50.0	
Other expenses	56 965.3	62 045.2	73 212.9
Ordinary results before taxes:			
Profit	5 343.0		4 166.7
Loss		-2 516.4	
Income tax on the ordinary income	414.8	364.0	469.3
Ordinary results:			
Profit	4 928.2		3 697.4
Loss		-2 152.4	
Extraordinary :	11.7	106.7	22.9
Tax on the extraordinary income			
Net:			
Profit	4 939.9		3 720.3
Loss		-2 045.7	

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