

Universal investment group

quarterly review of the bond issuer activities

December 2007

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>	2006	9m. 2006	9m. 2007
Net revenue	302.7	217.3	254.5
Gross profit	59.9	41.8	42.7
Net profit	5.2	7.9	2.8
Income tax	1.8	0.3	0.5
Interest	10.0	6.5	11.8
Depreciation	6.9	6.1	7.2
EBITDA	23.8	20.8	22.3

Financial ratios

	2006	9 m. 2006	9 m. 2007
Gross margin, %	19.8	19.2	16.8
Net margin, %	1.7	3.6	1.1
EBITDA margin, %	7.9	9.6	8.8
ROE, %	6.4	9.6	1.8
Equity ratio, %	39.0	39.0	43.0
Current ratio	2.6	2.1	2.8

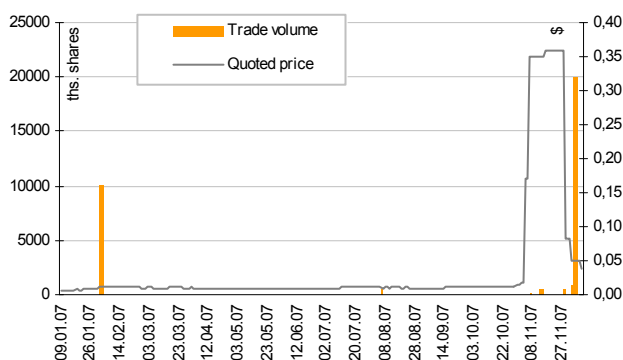
Information on the shares of the Concern Khibprom

PFTS

Market price: 0.05 UAH

Issued stock: 15 000 000 000

Mcap: 757.5 mio UAH



Summary

- Production of companies of Concern Khibprom for 9 m. 2007 increased YoY by 5% to 81.9 thousand tons in physical terms and by 20% to 175.4 mio UAH in monetary terms;
- Net Income of the Concern for 9 m. 2007 grew YoY by 37.3 mio UAH (17.2% growth) and amounted to 254.5 mio UAH;
- EBITDA margin over 9 m. 2007 remains on average level for the industry: 8.8% despite the tight regulation of the bread prices;
- As a result of full payment for additional issue of shares, statutory fund of the company grew by 59.3 mio UAH, up to 150.0 mio UAH. The funds from issuance were channelled to partial acquisition of assets of several Ukrainian bread plants in September.

The latest news of OJSC „Concern Khibprom”

- For 9-12% periods of B and C series bonds, Concern Khibprom has announced 10.5% annual interest income rate;
- In December, Ernst & Young auditors completed the first auditors' report of the OJSC "Concern Khibprom" for 2006;
- Extraordinary shareholder meeting, which was held on November, 23, took decision on increase of statutory fund of OJSC "Concern Khibprom" by 9 mio UAH to 159 mio UAH. The shares of additional issuance will be exchanged for the share in capital of LLC "Gaysinsky CBP" and LLC "Kalush bread industrial complex".

Concern Klibprom. Review performance of the company for 9 m. 2007

1. MARKET ENVIRONMENT

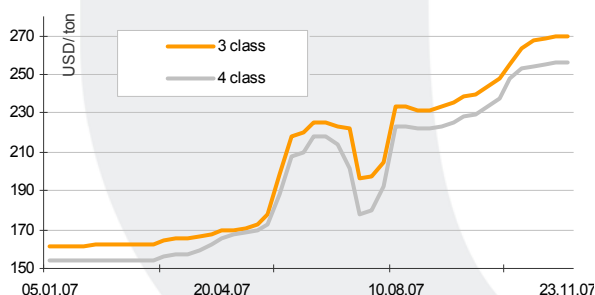
Grain and grain legumes crop in Ukraine in 2007 year, according to Ministry of agricultural policy of Ukraine, amounted to 29 mio tons in primary weight (34.3 mio tons were gathered in gross weight after processing in 2006), including wheat crop reaching 14.6 mio tons, barley – 6.5 mio tons, and corn – 7.5 mio tons.

Most likely that there won't be enough volume of rye for domestic needs in 2007/2008 marketing year (MY); therefore Ukraine will have to import grain and rye flour. Together with stock to the amount of 80 thous. tons, overall rye volume for the beginning of the current MY will be equal to approximately 680 thous. tons, which is by 21% less compared with 2006/2007 MY in which there was lack of this type of grain.

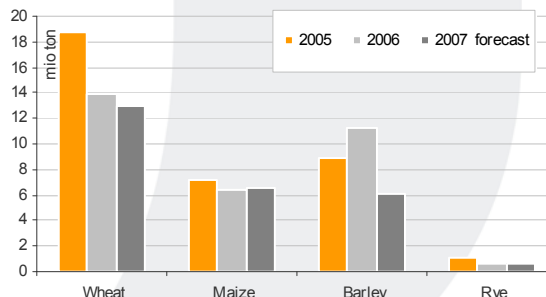
In September 2007, government introduced additional export quotas on grain. According to resolution of the Cabinet of Ministers № 1179 dated 26 September 2007, export quotas were established for 1 November to 31 March 2008. According to the resolution, traders will be able to export 1 203 thous. tons of grain, including: 200 thous. tons of wheat, 600 thous. tons of corn, 400 thous. tons of barley and 3 thous. tons of rye. For the time being it is negotiated by the government to change the start of export quotas for 1 November to 1 January 2008.

Most likely that new government will continue policy of grain export quoting. In 2007/2008 MY nearly 3 mio tons of grain will be exported from Ukraine, i.e. less than the government declared, including approximately 1 mio tons of wheat, 1.5 mio tons of corn and nearly 0.5 mio tons of barley.

The dynamics of prices of wheat 3rd and 4th grade in 2007



The volume of grain produced in Ukraine for 2005-2007



Source: APK-inform, UIGroup

Prices for food wheat, according to APK-inform data, in July-September increased on average by 7%, while the world market prices (wheat from USA and France) increased on average by 40%. So, as for the beginning of October, the price per ton of wheat of the 3rd grade amounted to 240 USD, 4th grade – to 230 USD, and 5th grade and fodder nearly – 200 USD. Price increase in Ukraine is restrained by export quotas.

Prices for grain will continue to grow until the end of 2007 year. Rates of their growth will be approximately at the level of 5-7% due to restrictive influence of export quotas on the prices. Preconditions for further price growth are: stable demand from processors and possibility of grain owners to slow down the sales due to not significant need of extra financing, as a result of improved financial situation, because of grain price increase in 2006/2007 MY.

Influence of government on the development of bread and bakery industry in Ukraine is currently negative. So far price growth for bread products is artificially restrained with the help of administrative pressure in defiance of the significant growth of cost. Such governmental practice led to worsening of financial condition of several bread producers and suspending of its planned investment programs.

Concern Klibprom. Review performance of the company for 9 m. 2007

After finishing of elections to the parliament, bread market operators increased prices by 10-12%, but government exerted pressure on bread makers with an aim to return prices to the previous level. In our opinion, after forming of new government price regulation for bread products would gradually weaken, and the bread prices will increase by 40% on average in all regions at the beginning of 2008.

2. OPERATING ACTIVITY

Putting into operation of additional equipment at the bakeries of Concern Klibprom during 2006-2007 and upgrading of the existing equipment, allowed the company to continue increasing physical terms of sales. As a result of 9 m. 2007 Concern Klibprom and its subsidiaries sold 81.9 thousand tons of bakery and confectionery products with 5% YoY increase.

In monetary terms, it was sold by 20% more products, amounted to UAH 175.4 mio. Such moderate increase in monetary terms, taking into account a significant rise in price of all the components of bread production costs (in particular, flour), is concerned with the regulation of the price of bread by local administrations. Starting from the second half of 2007, when the government began regulatory measures on the bread market, Concern Klibprom was forced to keep the price of prevailing grades of bread at the previous level, and not boosted the prices for the products, which have not been under the supervision of state authorities.

Such measures were caused by expectations of possible simultaneous price increase for the entire range of products after the elections to the Verkhovna Rada of Ukraine. Grain cache, which was formed in 2006, served as a reserve to keep the prices, after a significant price growth for grain that began in May 2007. However, the regulation of government authorities has also continued after the elections. Because of that, in October Concern raised the price for enriched bread, long loaf, and cakes by 10-15% on average.

Table. 1 Production of bakery products by OJSC "Concern Klibprom " for 9 months 2005-2007

Type of product	Period	9m. 2005 ¹		9m. 2006		9 m. 2007	
		ths. tons	mio UAH ²	ths. tons	mio UAH ²	ths. tons	mio UAH ²
Bread		63.0	90.9	69.1	108.5	70.9	127.2
Cakes		6.0	15.9	7.3	25.3	8.9	34.8
Confectionery		1.2	7.8	1.8	12.3	2.1	13.6
Total		70.2	114.6	78.2	146.1	81.9	175.4

Source: OJSC "Concern Klibprom"

The average price for wheat bread, which holds the largest share in the structure of output of the Concern (about 31%), and is supervised by the state authorities, in September amounted to 2 247 UAH, and increased by 10% comparing with the price at the beginning of the year. At the same time, the market price of flour of higher class and first class, grew by 57% on average and amounted to 1 602 UAH. Increase in cost price, particularly the cost of flour, with prices unchanged results in a very low level of profitability of mass bread production. Therefore, the Company plans to further extend the development of high value products, and to pursue the pricing policy that will help improving financial results.

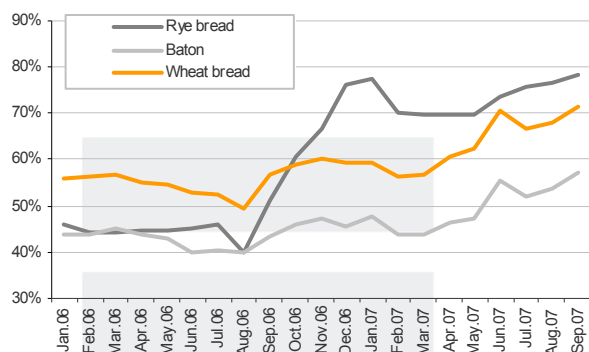
With increasing production in each of the product groups, its structure is characterised by an increase in the share of cakes in the total volume and stable high share of bread (73%). Such dynamics is determined by increased demand for cakes, and the increasing supply of new types of cakes by the Concern. As for the results of 9 m. 2007 cakes share amounted to 19%, comparing with 17% for the same period of last year. The volume of such products in monetary terms grew by 35% to 34.8 thous. UAH.

¹ Production of long loaf was put to the category Bread.

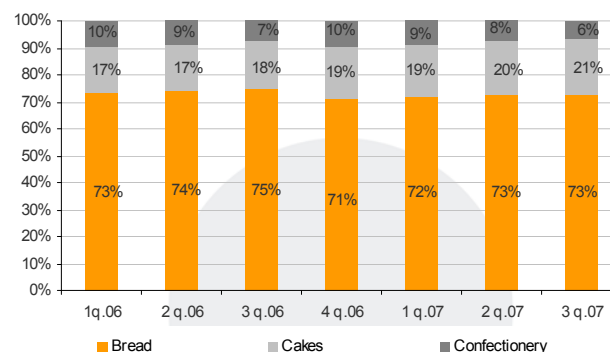
² Figures are given without VAT.

Concern Khibprom. Review performance of the company for 9 m. 2007

The ratio of market price of flour to the average price of bread for the 2006-2007



Percentage of products groups of total proceeds from the Concern Khibprom sales



Source: OJSC "Concern Khibprom" Visualization: UIGroup

According to the company's plans, since August 2007, Concern began the process of incorporation into the sole legal entity of all subsidiaries and other businesses, partially owned by the Concern at the moment. Ernst & Young was involved in this process as consultants. Successful implementation of restructuring will optimize and enhance the performance of Concern, exercise more control over the operating processes at all levels of the Company. The consequence of the restructuring will be centralizing procurement management, inventory control, sales, human resources, costs, etc.

At present, the first phase of restructuring has been finished - transfer of all operating activities of the following companies SP (subdivision), "Barsky bakery," SP " Mogilev-podolsky bakery" and "DP" Vinnitsyahlib to OJSC "Concern Khibprom".

3. FINANCIAL PERFORMANCE OF THE COMPANY

The first auditors' report, which was prepared by an independent auditor Ernst & Young in accordance with the IFRS in November, displays loss of the Concern Khibprom for the year 2006 to the amount of 9.2 mio UAH. Accounting of the Concern compiled according to Ukrainian Accounting Standards shows net profit amounted to 5.2 mio UAH. Significant revaluation of fixed assets by 85% to 185.5 mio UAH and as a result, increased depreciation by 8.8 mio UAH up to 14.3 mio UAH mostly resulted into main discrepancy between reporting according to the Ukrainian Accounting Standards and IFRS.

Table 2 Income Statement accounts according to UAS and IFRS for 2006, thous. UAH

Показник	Accounting standart	UAS	IFRS
Net revenue		302 699	348 271
Gross profit		59 927	51 434
Net profit		5 174	-9 193
Income tax		1 841	3 163
Interest		9 996	10 706
Depreciation		6 833	14 319
EBITDA		23 843	18 995

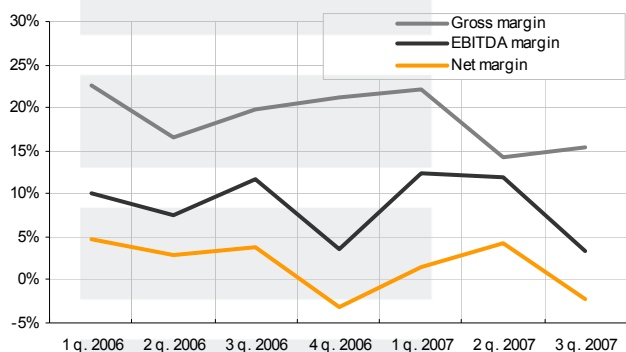
Source: OJSC "Concern Khibprom"

Concern Khibprom. Review performance of the company for 9 m. 2007

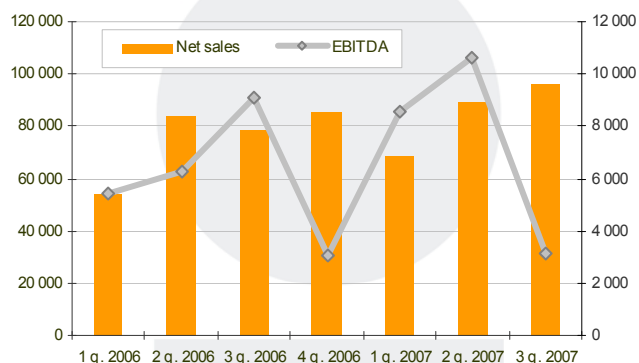
EBITDA calculated according to IFRS is at the level of 19 mio UAH, which is by 4.8 mio UAH less than for UAS. EBITDA margin according to IFRS accounted for 5.5%.

The main reason for the decline of EBITDA under IFRS is the transfer of loss of OJSC "Vinnitsyahlib" (48% of which is owned by Concern) to the amount of 2.9 mio UAH. OJSC Vinnitsyahlib does not undertake operating activities, and is only the owner of two plants in Vinnytsya region.

Quarterly net margin and EBITDA margin of Concern Khibprom for 2006-2007



Quarterly figures of net sales and EBITDA (right scale) of Concern Khibprom for 2006-2007, ths. UAH



Source: OJSC "Concern Khibprom" Visualization: UIGroup

Net sales of the Concern for 9 m. 2007. grew up YoY by 37.3 mio UAH. (17.2%) and amounted to 254.5 mio UAH. Among the key reasons of growth of net income are the following: growth in the physical terms of production and necessity to increase the prices of products were slightly slowed down by regulations of the governmental authorities as regards bread prices and profitability of the production of bread.

Gross margin for 9 m. 2007 amounted to 16.8%, and decreased by 2.4 pct in comparison with 6 m. 2006. The reason for such reduction of gross margin was the government's restraint of prices with the help of local authorities on the one hand, and the increase of the value of key components of cost of goods on the other hand. EBITDA margin for 9 m. 2007 amounted to 6%, despite the adverse conditions for the bakery industry this year.

Table. 3 Financial ratios of OJSC "Concern Khibprom" for 9 months. 2006-2007

Indicator	Period	9 m. 2006	9 m. 2007
Gross margin, %		19.2	16.8
Net margin, %		3.6	1.1
EBITDA margin, %		9.6	8.8
ROE, %		9.6	1.8
Equity ratio, %		39.3	43.3
Debt financing ratio, %		23.9	42.5
Coverage liabilities by income		1.5	1.7
EBITDA / Financial expenses		3.2	1.9
EBITDA / Liabilities		0.1	0.1
Working capital, ths. UAH.		117 385	149 957
Securing by working capital, %		37.5	35.5
Current ratio		2.1	2.8

Concern Khibprom. Review performance of the company for 9 m. 2007

The large amount of interest expenses paid on debts (11.8 mio UAH) is concerned with high share of debt in the balance sheet in 2007. For 9 months 2007 average ratio of financing by borrowed funds was 40%; it was 25% in the same period of last year. The EBITDA to interest ratio amounted to 1.9%, which indicates a high level of the Concern's solvency.

After completion of elections to the Verkhovna Rada, bread prices are still governed as before. Therefore rise in prices after October price increase on long loaf and rich bakery in 2007 can be expected after starting work of new government.

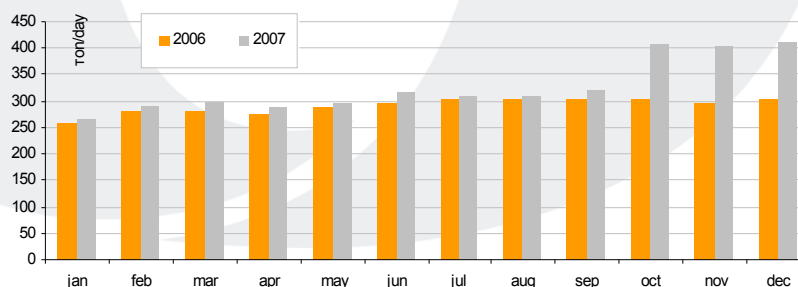
4. INVESTMENT ACTIVITIES

Concern Khibprom continues to consolidate bakery businesses in the Western Ukraine. As part of its strategic plan of acquiring of existing industrial bakeries, in September the Company acquired part of the assets of several Ukrainian bakery plants. Their aggregate actual daily output is approximately 90 tons of bakery and confectionery products per day. Thus, the total daily output of products of the Concern's plants and partially owned companies will be raised up to 410 tons per day.

Partially, funding of the acquisitions was financed by the increase of the share capital to 59.3 mio UAH. As a result of full payment for the shares of additional issue the share capital of the company increased by 65% to 150 mio UAH. Furthermore, the acquisitions were funded with the first disbursement of loan facility to the amount of 50.5 mio UAH, accommodated by International Financial Corporation (IFC).

The overall indebtedness of the company on loans and bonds grew by 83% to 190.2 mio UAH. This increase was mainly driven by disbursement of the loan facility from IFC, and the loan from OTP bank in the amount of 24.6 mio UAH. Moreover, the company had replaced purchased earlier series D bonds in the amount of 7.0 mio UAH. Funds which are acquired as a result of increased indebtedness were used for acquisitions of assets of bakery plants and for purchasing of additional equipment. Funds from the bonds issuance were utilized to finance operation activity of the company.

Actual capacity of Concern Hlibprom for January-September 2007-and target capacity for October-December 2007, including partially owned companies



Source: OJSC "Concern Khibprom" Visualization: UIGroup

On the November 23 the extraordinary shareholders meeting of the company was scheduled; where there were planned to take a decision on the increase of the share capital by 9.3 mio UAH. The shares of recent issuance will be exchanged for the share in capital of LLC "Gaysinsky CBP" and LLC "Kalush bread industrial complex", which are about to cease operations by means of joining to the OJSC "Concern Khibprom". Such activities are carried out within the restructuring and incorporation into the sole legal entity processes.

Concern Klibprom. Review performance of the company for 9 m. 2007

Concern Klibprom continues to invest in expansion of mill capacities according to the needs of their subsidiaries and businesses. For example, in July there was ordered Italian equipment to the amount of 3.85 mio USD for the construction of mill in the town of Zhovkva (Lviv region). The mill will have a maximum capacity of 300 tons of grain per day; the capacity of Zhovkva's elevator is supposed to grow by 11 thous. to 15 thous. tons of grain.

As part of the development plan for the production of frozen bakery products, Concern continues to invest in purchasing of appropriate equipment. In September the contract was signed on purchasing of refrigeration equipment for the production of frozen bakery products to the amount of 1.5 mio UAH.

The investments are channelled to increase production capacity will allow to consolidate the position on Western Ukraine's market and to increase output of high margin bakery production.

Concern Khibprom. Review performance of the company for 9 m. 2007

5. Consolidated balance sheet of "Concern Khibprom" (ths. UAH.)

ASSETS	30.09.06	31.12.06	30.09.07
I. Fixed assets	90 639.8	103 092.0	183 949.4
Intangible assets, residual value	400.0	507.0	463.0
Construction in progress	2 094.5	2 085.6	8 299.4
Property, plant and equipment, residual value	87 527.1	100 295.8	105 021.6
Long-term financial investments:			
accounted by equity method			69 965.9
other financial investments	15.0	15.0	15.0
Long-term accounts receivable	125.8	125.8	121.5
Deferred tax assets	476.6	62.0	63.0
Goodwill	0.8	0.8	
II. Current assets	221 734.7	208 860.7	235 426.3
Production inventory	10 162.0	22 853.9	13 135.7
Livestock	10.1	8.1	5.5
Work in progress	384.6	271.8	561.8
Finished production	475.3	222.9	356.0
Goods	3 321.0	13 996.5	5 501.0
Notes receivable			431.0
Trade accounts receivable :	21 653.7	28 078.3	25 305.2
Account receivables under settlements:			
budget	2 444.1	4 802.2	2 021.9
advances	10 373.4	16 131.1	17 140.0
Other current accounts receivable	53 551.6	29 419.6	102 915.7
Current financial investments	84 656.5	75 421.4	47 521.1
Cash and equivalents:	31 141.9	12 549.7	10 905.6
Other current assets	3 560.5	5 105.2	9 625.8
III. Prepaid expenses	345.4	581.8	3 016.1
TOTAL ASSETS	312 719.9	312 534.5	422 391.8
LIABILITIES AND EQUITY	30.09.06	31.12.06	30.09.07
I. Equity	122 863.5	120 754.1	182 743.2
Share capital	90 683.5	90 683.5	150 000.0
Additional paid-in capital	15.0	15.0	15
Other additional capital	13 909.1	13 887.8	13 842.4
Reserve capital	3 201.1	3 201.1	3 201.1
Retained earnings	15 054.8	12 318.7	15 032.4
Differences in value of securities upon consolidation		648.0	652.3
II. Reserves for future expenses	58.6	55.7	678.0
Personnel expenses reserves		3.2	668.3
Other reserves	58.6	52.5	9.7
III. Long-term liabilities	85 507.0	110 031.5	154 179.0
Long term bank loans	35 078.5	42 306.7	91 867.4
Other long-term financial liabilities	50 139.1	67 425.8	61 965.7
Deferred tax liabilities	289.4	299.0	299.0
Other long-term liabilities			46.9
IV. Current liabilities	104 290.8	81 693.2	84 791.6
Short-term bank loans	20 672.4	37 860.5	36 043.5
Current portion of the long-term debt			371.5
Notes payable	7 229.1	2 588.8	1 585.1
Trade accounts payable	26 914.8	28 397.1	20 821.3
Accounts payable under settlements:			
advances received:	8 096.9	6 675.8	9 367.0
budget	478.4	801.2	855.7
off-budget payments	0.5	0.9	6.8
insurance	1 086.7	929.2	1 204.5
wages and salaries	2 592.0	2 491.0	2 942.3
owners	7.3	7.3	6.5
Other current liabilities	37 212.7	1 941.4	11 587.4
V. Deferred income			
TOTAL EQUITY AND LIABILITIES	312 719.9	312 534.5	422 391.8

Concern Khibprom. Review performance of the company for 9 m. 2007

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

Item	9 m. 2006	12 m. 2006	9 m. 2007
Sales revenue	253 877.3	357 569.9	297049.5
Value-added tax	36 512.3	54 689.4	41985.8
Excise tax		0.2	
Other revenue deductions	112.8	181.4	549.3
Net sales revenue	217 252.2	302 698.9	254 514.4
Cost of the goods sold	175 493.0	242 771.7	211 786.8
Gross:			
Profit	41 759.2	59 927.2	42 727.6
Loss			
Other operating income	13 329.5	18 110.2	77 344.7
Administrative expenses	16 794.9	23 527.6	18 126.8
Selling expense	20 731.6	29 739.3	29 847.8
Other operating expenses	14 633.7	20 026.5	79 461.6
Operating results:			
Profit	2 928.5	4 744.0	
Loss			-7 363.9
Income from investments in equity			2 445.3
Other financial income	4 229.9	109.9	141.5
Other income	52 427.1	70 516.8	77 549.6
Financial expenses	6 510.4	9 995.5	11 750.7
Loss from investments in equity			
Other expenses	44 907.8	58 360.6	57 726.1
Ordinary results before taxes:			
Profit	8 167.3	7 014.6	3 295.7
Loss			
Income tax on the ordinary income	257.2	1 840.6	545.0
Ordinary results:			
Profit	7 910.1	5 174.0	2 750.7
Loss			
Extraordinary :			48.5
Tax on the extraordinary income			
Net:			
revenues	7 910.1	5 174.0	2 799.2
expenses			

Concern Khibprom. Review performance of the company for 9 m. 2007

6. Consolidated balance sheet of "Concern Khibprom" (ths. UAH.)

Стаття	2005	2006
ASSETS		
Non-current assets	202 221	267 150
Property, plant and equipment	157 377	185 450
Intangible assets	315	507
Investments	43 991	80 640
Deferred tax assets	445	446
Other non-current assets	93	107
Current assets	41 717	143 385
Inventories	13 105	37 005
Trade and other receivables	16 942	50 580
Prepayments and other current assets	10 121	43 256
Cash and cash equivalents	1 549	12 544
Total assets	243 938	410 535
EQUITY AND LIABILITIES		
Equity	112 084	184 861
Share capital	17 397	90 684
Additional paid-in capital	13 948	13 903
Revaluation reserve	75 280	84 006
Retained earnings/(accumulated deficit)	5 459	(3 732)
Non-current liabilities	42 423	49 330
Loans and borrowings	16 591	21 830
Deferred tax liabilities	25 832	27 500
Current liabilities	89 431	176 344
Loans and borrowings	25 908	124 790
Trade and other payables	63 145	51 482
Income tax payable	378	72
Total equity and liabilities	243 938	410 535

7. Consolidated income statement of OJSC "Concern Khibprom" according to IFRS (ths. UAH)

Articles	12 m 2006
Revenues	348 271
Cost of sales	296 837
Gross profit	51 434
General and administrative expenses	20 906
Selling expenses	32 707
Other operating income	11 901
Other operating expenses	2 165
Profit from operations	7 557
Share in loss of associate	2 931
Finance income	50
Finance expenses	10 706
Loss before income tax	-6 030
Income tax	3 163
Net loss	-9 193

Concern Khibprom. Review performance of the company for 9 m. 2007



UNIVERSAL
INVESTMENT GROUP

FC «Universal Investment Group»

72 Turgeneva Street, Lviv, 79015, Ukraine
Tel. +3 8 032 298 89 01/10/14/23, Fax. +3 8 32 298 89 02

Executive Director

Vasyl Danylyak

VDanyljak@uigroup.com.ua

Investment Department

Investment Director

Andriy Khudo

AKhudo@uigroup.com.ua

Specialist

Yuriy Tymchuk

YTymchuk@uigroup.com.ua

Specialist

Taras Mishak

TMishak@uigroup.com.ua

Press secretary

Oles' Pogranychnyy

OPogranychnyy@uigroup.com.ua

OJSC «Pershyy Ukrainskyy Mizhnarodnyy Bank»

Chief of Securities management
department

Olexandr Kamarali

Alexandr.Kamarali@fuib.com

Specialist of Securities department

Maryna Timbay

Marina.Timbay@fuib.com

OJSC «Bank Universal»

Chief of stock operations
department

Ihor Kaminskyi

IKaminskyi@bankuniversal.com.ua

OJSC «Concern Khibprom»

Director of finance and analytics
department

Roman Khrushch

RHrusch@hlibprom.com.ua

Press secretary

Yuliya Poshehova

YPoshehova@hlibprom.com.ua