

The rating report

(version for publication)

(on basis of the Agreement no. 55/RA of March 28, 2011)



Issuer's bonds credit rating according to the Ukrainian national scale:

uaA

Rating interpretation:

A borrower or a debt instrument with the rating **uaA** has high credit status compared with other Ukrainian borrowers or debt instruments. Credit status level is sensitive to influence of adverse commercial, financial and economic factors

(The rating has been assigned according to the scale approved by the Resolution of the Cabinet of Ukraine no. 665 of April, 26, 2007)

Rating date:

April 15th, 2011



**THE ISSUER: Limited liability company
'Hubyn battery farming complex'
(Agro-industrial group 'Pan Kurchak')
(full name of the issuer)**

1, Lisova str., v. Hubyn, Lokachi district, Volyn region, Ukraine, 45513
(legal address of the issuer)

1, Lisova str., v. Hubyn, Lokachi district, Volyn region, Ukraine, 45513
(de facto address of the issuer)

Full name:	Hubyn battery farming complex Ltd*
Company ownership type:	Limited Liability Company
USREOU code:	31603002
Manager name and title:	Solovka Igor Volodymyrovych, Director
Permanent staff number:	241 (two hundred forty one persons)
Incorporation date:	25.10 2001
Date of start of operation:	25.10 2001
Servicing auditing company :	Auditing firm Audit Advice Ltd
Phone:	+38 (0332) 78-82-11
Fax:	+38 (0332) 78-82-11
E-mail address :	gubyn_sekretar@pankurchak.com.ua
Company WEB site address:	www.pankurchak.com.ua

* Note: Hubyn battery farming complex Ltd is the legal successor for rights and obligations of:

- Joint Ukrainian Belarusian Venture 'Grin and Co' Ltd, legal address: 16 , Molodizhna str., Horokhiv, Volyn region, Ukraine, USREOU code: 31572399, in accordance with transfer act and transfer balance of assets and liabilities of 'Grin and Co' Ltd handed over to Hubyn battery farming complex Ltd of 06.08.2007;

- Tis Ltd, legal address: 47, Gordiyuk str., Lutsk, Volyn region, Ukraine, USREOU code: 30733284, in accordance with transfer act of 18.08.2008 and transfer balance of assets and liabilities of Tis Ltd handed over to Hubyn battery farming complex Ltd of 15.08.2008;

- Kormpostach Ltd, legal address: 14, Shevchenko str., Lokachi, Lokachi district, Volyn region, Ukraine, USREOU code: 32803839, in accordance with transfer act of 01.09.2008 and (exacted) transfer balance of assets and liabilities of Kormpostach Ltd handed over to Hubyn battery farming complex Ltd of 10.10.2008.

The guarantor of bonds issue is 'VMP Ltd', USREOU code 36266887

*The present report is a rating research to be understood exclusively as an opinion of Expert Rating RA analysts.
The rating report is a research substantiating the rating assigned, which also is an opinion of Expert Rating RA analysts.
See the last page of the report for use limitations
The Issuer has taken note of the report and agrees that the information herein contained is true and complete*

Additional information for investors

1. General information on bonds issue

Face-value	UAH 1 000
Issue amount, UAH	A series - 50 000 000
Number of bonds in the issue	50 000 pcs
Underwriter	NRG Capital, LLC, 4 Muzeyniy lane, Kyiv, Ukraine 01001 phone: (044) 591-15-15, e-mail: info@nrg-capital.com.ua (USREOU 37045864)
Applications submission period in competitive bidding	09.05.2011 - 30.06.2011
Placement period	16.05.2011 - 16.05.2012
Maturity date	09.05.2016
Bonds (offering) repayment date	14.05.2012–15.05.2012, 13.05.2013–14.05.2013, 12.05.2014–13.05.2014, 11.05.2015–12.05.2015
Coupon period	One quarter
Number of coupon periods	20
Interest rate	For the 1 st to 4 th periods 16,5%; For the 5 th to 8 th periods the rate to be established, but not less than 5%, new rate announcement date – before 13.04.2012; For the 9 th to 12 th periods the rate to be established before 12.04.2013 For the 13 th to 16 th periods the rate to be established before 11.04.2014 For the 17 th to 20 th periods the rate to be established before 10.04.2015
Issue type	Undocumented
Depository	PJSC 'Ukrainian Depository of Securities'

2. General information on the guarantor

Guarantor	VMP Ltd
Ownership legal type	Limited Liability Company
Manager name and title	Lvova Tetyana Mykolayivna
Incorporation date	04.09.2009.
Auditor	Auditing firm Audit Advice Ltd
Legal address of the Company	15/4, Saint Volodymyr str., Novovolynsk, Volyn region
Phone	+38 03344 4-68-80
Fax	+38 03344 4-68-82
WEB address	www.pankurchak.com.ua
USREOU code	36266887
Information on the guarantor company	VMP Ltd is specialized on advanced technology processing of pork meat, production and sales of sausage products, meat packs. The range of products includes more than 100 items. Production capacity: - pig slaughtering and pork meat processing - 353 tons per week; - packed meat production - 104 tons per weeks; - production of sausage products and smoked meats - 375 tons per week. Annual designed capacity of company facilities are for production of 19,5 thousand tons of sausage products and smoked meats, and near 22 thousand tons of chilled pork meat and by-products

Section 1. Overall review of the company

1.1. History of Issuer's development and description of its activity

The Limited liability company 'Hubyn battery farming complex' has been incorporated the 25.10.2001. Building of the first hen houses has begun in the village Hubyn of Lokachi district at that time. In 2001 four enterprises: 'Agrokormindustriya', 'Poltreks', 'Hubyn Battery Farming Complex' and 'SMP' united under the trade mark 'Pan Kurchak'. Hubyn battery farming complex Ltd has been working in the meat market since March, 2002. Broiler meat production began along with stepwise launch of poultry farm in Hubyn village of Lokachi district. In September of the same year one more poultry farm in Tulychiv village of Lokachi district has been put into operation. In 2005 a poultry farm in Pisky village and 6 hen houses of Holoniv village poultry farm have been stepwise put into operation. In 2006 two more hen houses in Holoniv and 6 hen houses of Zymne village poultry farm have been completed. In February, 2009 expansion of the farm complex located in Tulychiv village of Turyisk district has been performed; 5 hen houses have been added.

As of today Hubyn battery farming complex Ltd is one of the largest subunits of the Agro-Industrial group Pan Kurchak. Since 23.04.2009 merge of Hubyn battery farming complex Ltd and Poltreks Ltd took place by lease to Hubyn battery farming complex Ltd of an integral property complex in Novovolynsk. Main areas of production activity are raising, slaughtering, processing and packaging of broilers. The speed of poultry processing is 7000 head per hour.

The work areas of Hubyn battery farming complex Ltd are located in four districts of Volyn region: Lokachi, Horokhiv, Turyisk and Volodymyr-Volynsk.

The poultry farm in Hubyn village of Lokachi district has 6 premises with overall working area of 12 323 sq. m.

The poultry farm in Tulychiv village of Turyisk district has 11 premises with overall working area of 24 026 sq. m., from which 6 hen houses of overall area of 13160, 70 sq. m. are actually used.

The poultry farm in Holoniv village of Horokhiv district has 8 premises with overall working area of 11 820 sq. m.

The poultry farm in Pisky village of Horokhiv district has 6 premises with overall working area of 11 467 sq.

The poultry farm in Zymne village of Volodymyr-Volynsk district has 6 premises with overall working area of 8831 sq. m.

The total working area of all the farms makes 68467 sq. m., that allows to cycle at a time 1 052 662 heads of chicken broilers during the winter period, and 919 862 heads during the summer period.

The process of broilers farming as utmost automated, all the live products are delivered by company's own transport from poultry farms to the slaughter house in Novovolynsk where slaughtering, processing and packaging of finished goods are performed. During the processing the poultry carcasses undergo a sequence of operations. The speed and the uninterrupted operation of each step are adjusted so to provide maximum freshness and taste of meat and an attractive appearance. The available equipment allows to use two methods of temperature treatment ensuring meat preservation: fast chilling and deep freezing. The capacity of refrigerating units allows obtaining 30 tons of refrigerated meat in 12 hours. Main products of the enterprise are broiler carcasses, semi-finished products and by-products obtained from chicken broilers. The product range includes nearly 30 positions of chilled/frozen packed chicken products.

The enterprise produces the following main types of products: broiler chicken heads, shins, wings, cooking sets, broiler chicken legs, livers, hearts, hips, chilled/frozen broiler chicken carcass, broiler chicken fillets, quarters, necks, stomachs.

1.2. Overview of the structure and activity of the business group the Issuer belongs to.

The Issuer makes part of the agro-industrial group 'Pan Kurchak' as a separate company. The group works in Ukraine for about 10 years. The AG 'Pan Kurchak' specializes on:

- grains growing;
- production of mixed fodders;
- incubation of one-day old chickens;
- poultry raising and poultry meat production;
- pig breeding;
- production of meat and sausages;
- sales of own products through a national chain of fresh meat stores.

As of the beginning of 2011, the Group included 12 structural units, being separate legal persons. The greatest companies of the Group are the following:

- **PE 'Western agrarian company'**, engaged in cultivation of grain and commercial crops: spring and fall wheat, fall winter, fall barley. Total cultivation area makes 5 000 hectares.

- **Hubyn battery farming complex Ltd** is the largest subunit of Agro-industrial group 'Pan Kurchak' operating in a number of Volyn region districts. Work is conducted in two directions: poultry raising and poultry meat production. *Poultry raising*: 5 feeding farms which annual capacity made almost 10 000 live weight tons in 2008. In 2011 the size of facilities and availability of advanced technology equipment will allow to raise up to 1 253 010 heads of chickens. *Poultry meat production*: main products of the enterprise are broiler chicken carcasses, semi-finished products and by-products obtained of broiler chickens. The assortment consists of nearly 30 positions of chilled/frozen packed chicken products. Production output in 2008 made almost 10000 tons of poultry meat. In 2011 production growth is planned to almost 12500 tons of poultry meat at the expense of increase of number of heads in one farm-cycle.

- **VMP Ltd** is engaged in advanced technology processing of pork meat, production and sales of sausage goods, pack meat. Range of products is made by more than 100 items. The capacity of production makes: pig slaughtering and pork meat processing - 353 tons per week; production of packed meats - 104 tons per week; production of sausages and smoked meats - 375 tons per week. Annual designed capacity of company facilities are for production of 19,5 thousand tons of sausage products and smoked meats, and also near 22 thousand tons of chilled pork meat and by-products.

- **Agrotekhnika Ltd** is engaged in production and supply of complete mixed feeds for farm animals, poultry and fish. Two plants with advanced processing equipment and complete automation allow producing a wide range of mixed feeds by easily changing formulation, appearance and packaging method. Monthly average capacity of the plants makes 12 000 tons of pelletized mixed feeds. The plants are equipped with modern lines (produced by 'Testmer', Poland).

- **Agidel Ltd** is one of the most advanced and largest incubators in Ukraine with 32 m eggs per year capacity.

- **Vira-1 Ltd** is engaged in meat pig breeding. The enterprise has the status of nucleus. The sow herd is entered in state pedigree register. A nucleus and a feeding complex operate at the enterprise, equipped by modern equipment of joint venture 'Terraexim-Agroimpex' (Denmark-Poland) and corresponding to the highest world standards. The nucleus complex includes 1 300 sows. The sow herd has been brought in from specialized farms of England and Czech Republic. Genetic lines of pigs are maintained on the complex, their rotation is performed; the older sows are replaced by young ones, grown at own farm. The piglets are subject to weaning and selection steps. 520-560 piglets weighing over 28 kg are transferred to the feeding complex weekly. In the territory of the nucleus a laboratory is working. Also there are premises for hogs, artificial insemination and farrowing. The capability of feeding complex is 7 500 heads of single cycle.

- **Trade House 'Volynproduct' Ltd** - sales and supplies of all commodity groups produced at the enterprises of Agro-Industrial Group Pan Kurchak. The company has been founded in 2009. It consolidated sales and logistic channels. The product range contains about 60 positions of sausage products and smoked meats, 56 positions of chilled meat and by-products, and also 30 positions of packed chilled/frozen chicken products.

- **Ukrainian trade networks TM 'Meat point' Ltd** is a national network of brand fresh meat stores with new name, new concept and irreproachable service. Presently TM 'Meat point' works in Lutsk, Rivne, Novovolynsk, Ternopil, Zhytomyr, Ianychi, Lviv.

In 2010 the share of the Issuer 'Hubyn battery farming complex' Ltd together with the guarantor 'VMP Ltd' in the gross sales turnover of the Group Pan Kurchak was over 60 %. Both enterprises have been the largest assets of the Group Pan Kurchak (table 1).

Table 1

Gross sales of the companies belonging to AG Pan Kurchak in 2009-2010

no	Company name	2010	Share in Group	2009	Share in Group	Growth rate 2009–2010
1	Hubyn battery farming complex Ltd	207969	31,17%	170450	22,92%	22,01%
2	VMP Ltd	202216	30,31%	151576	20,38%	33,41%
3	Agidel Ltd	87646	13,14%	53913	7,25%	62,57%
4	Ukrainian trade networks Ltd	38529	5,78%	19970	2,69%	92,93%
5	Western agrarian company Ltd	19112	2,86%	12386	1,67%	54,30%
6	Agrotehnika Ltd	61935	9,28%	125474	16,87%	-50,64%
7	SMP Ltd	17642	2,64%	117991	15,87%	-85,05%
8	Vira-1 Ltd	29535,8	4,43%	31101,5	4,18%	-5,03%
9	Agrofoot Ltd	0	0,00%	596,9	0,08%	-
10	Agrokormindustry Ltd	358	0,05%	11610	1,56%	-96,92%
11	Poltreks Ltd	2065	0,31%	48590	6,53%	-95,75%
12	Turiya – Agro Ltd	131,7	0,02%	0	0,00%	-
	Total*:	667139,5	100,00%	743658,4	100,00%	-

Source: Company data, calculations by RA Expert Rating

Note: * — the data are for reference purpose only and do not account for internal Group turnover

1.3. Key performance indicators

In 2010 the Issuer sold **13 177,7** tons of finished goods for the amount of **UAH 189 666,9 th.**, including:

- 11 575,04 tons of own products for the amount of UAH th. 166 612,5;
- 1 400,56 tons of goods produced by Krupetsagroptytsya Ltd for the amount of UAH 21 053,74 th.;
- 202,14 tons of goods produced by Agidel Ltd for the amount of UAH 2000,66 th.

Sales of own products have been suspended in the last decade of April and in May of 2010 because of production stop (1 cycle of poultry breeding has been missed). Average monthly sales was (including 11 months of sales) 1 192,9 tons for the amount of UAH 17 130,3 th. The minimum sales were 543,7 tons for the amount of UAH 7 931,6 th in April, and the maximum sales of 584,9 tons for the amount of UAH 20 111,2 th were in January.

The analytical service of RA Expert-rating has carried out the analysis of overall performance indicators of the Issuer. As positive tendencies in 2010 can be regarded:

1. Essential increase of ROS, ROA and ROE, increase of EBIT and EBITDA indicators by 3,23 % and 5 % accordingly, increase of Issuer's net profit by 3 times, to UAH 7,482 m. Growth of operations profitability and of volumes of profit of the Issuer do eloquently prove to the increase of its financial potential and capacity to service debt obligations (table 2).

Table 2

Analysis of Hubyn battery farming complex Ltd key performance indicators in 2009-2010.

Indicators	2010	2009	Growth rate, %
Balance sheet figures:			
Assets	190247	177938	6,92%
Fixed assets residual value	89662	94573	-5,19%
Fixed assets initial value	141076	138200	2,08%
Receivables	31932	38715	-17,52%
Liabilities	32599	27777	17,36%
Short term and long term bank loans	5176	18614	-72,19%
Total current liabilities (short term bank loans excluded)	27428	9158	199,50%
Shareholders equity	157643	150161	4,98%
Authorized capital	125887	125887	0,00%
Financial results:			
Sales income	207969	170450	22,01%
Net income	163847	140753	16,41%
Gross revenue	27859	19047	46,26%
Financial results of operations	6923	5995	15,48%
Net profit	7482	2513	197,73%
Estimate indicators:			
Equity/Liabilities	483,58%	540,59%	-
EBIT	7315	7086	3,23%
EBITDA	15212	14487	5,00%
ROS	3,60%	1,47%	-
ROA	3,93%	1,41%	-
ROE	4,75%	1,67%	-

Source: Company data, RA Expert Rating calculations

2. There was considerable growth of sales income to UAH 207,969 m. in 2010 that is by 22% higher compared to 2009. Also there was net profit growth by 16,41 % and gross revenue by 46,26 %. Sales revival is extremely important and positive factor which shows potential of market share increase of the Issuer.

3. Reduction of Issuer's bank loans by 72 % from UAH 18,6 m to 5,2 m proves to its increased financial independence from banking institutes. And though the analytical service of Agency notes growth of liabilities by 17 %, it has taken place due to growth of accounts payable to counterparts, most of which same as the Issuer, belong to Agro-Industrial group Pan Kurchak. In any case, the Company, according to analysts of Agency, remains enough capitalized. At the beginning of 2011 the shareholders equity of the Issuer exceeded its liabilities in 4,8 times. In case of increase in Issuer's obligations at the expense of bonds issue for UAH 50 m., its equity will exceed liabilities approximately in 2 times.

The disproportionate policy of receivables and payables management should be regarded as a negative tendency. During the year 2010 the accounts payable, except for bank loans, increased in 3 times, the receivables decreased by 17,52 %. According to the analysts of Agency, the Issuer has carried out a neutral policy with the consumers, simultaneously having changed sources of liabilities financing by related counterparts instead of bank loans: fodders suppliers (Agrotkhnika Ltd), one day old chickens (Agidel Ltd) and so forth. In 2011-2012, further improvement of debt management will allow to free out larger amount of internal resources for business development financing.

Section 2. Company position in the market. Market share and competitors.

The amount of sales mentioned in the previous section was distributed in 2010 through the following sale channels:

- wholesales - **6 919,32 tons** for the amount of **UAH 92 951,41 th.** (52,4 % of total sales);
- franchising network - **3 303,54 tons** for the amount of **UAH 50 903,74 th.** (25 % of total sales);
- own network (UTM Ltd) - **885,97 tons** for the amount of **UAH 11 941,62 th** (6,7 % of total sales);
- ordinary retail - **2 097,16 tons** for the amount of **UAH 34 603,3 th.** (15,9 % of total sales).

According to the Agency, the relevant sales channels are logically diversified, significant part of sale channels is under complete or partial control of the Issuer that to the large extent ensures future sales.

The geography of retail sales is outlined in the radius of not more than 350 km from the point of production which is economically proven for the delivery by small trucks. The products of Hubyn battery farming complex Ltd are sold in retail outlets in the following regions: Volyn, Rivne, Lviv, Ternopil, Ivano-Frankivsk, Khmelnytskyi, Zhytomyr.

Table 3

Data on poultry meat production in the years 2007–2009 (tons)

N	Name of the company	2009	2008	2007	Growth rate, %	Difference, tons
1	JSC Myronivskiy khliboproduct	330 368	293 929	225 589	46,45%	104 779
2	JSC Ptakhokombinat Dniprovskiy	58 060	51 932	41 762	39,03%	16 298
3	JSC Volodymyr – Volynska ptakhofabryka TM Kurka Cheboturka	25 739	20 872	16 107	59,80%	9 632
4	JSC Complex Agromars	186 839	146 749	155 712	19,99%	31 127
5	RUBI ROSE AGRICOLE Co., LTD	44 029	35 955	46 006	-4,30%	-1 977
6	Land gut Ukraine LTD	18 902	16 913	15 564	21,45%	3 338
7	Agroukrptakha LTD	11 080	11 851	10 999	0,74%	81

Sours: Union of poultry breeders of Ukraine, calculations by RA Expert Rating

In 2010 the Issuer produced 11575 tons of meat products in own facilities, this indicator almost ensures it belonging to the top 10 poultry producers of Ukraine. Lagging from industry leader JSC Mironovskiy khliboproduct is considerable, and share market of Hubyn battery farming complex LTD in 2010 is estimated by RA Expert-rating at the level of 1,2 %. The mentioned share has been calculated based on the official data of the Company and the Union of Poultry Breeders of Ukraine. According to UPU official data the volume of poultry meat in Ukraine has increased by 9% in 2010 and has made 965 thousand tons. In 2010 Ukraine produced on the average 24 kg of chicken meat per person. For comparison in the USA consumption of chicken meat per one person makes 43,4 kg annually. In 2010 for the first time there has been produced 79 million tons of chicken meat in the world; this amount was less, than estimated demand. In spite of the fact that the USA remained traditional exporter of chicken meat and exported about 3 m tons in 2010, chicken meat production in Russia, PRC, India grew very fast, however it didn't reach the demand, and this opens some export prospects in the future for chicken meat manufacturers from Ukraine.

At interpretation of estimated market share of Hubyn battery farming complex Ltd third parties should consider the specificity of the corresponding market. Only few companies producing poultry meat do operate across the nation, the others serve certain regions. For this reason the market share across the nation makes sense only for the domestic companies. Stability of sales and advantages in the struggle for consumers depend on market share in the region where local manufacturer works. RA Expert-rating estimates market share of Hubyn battery farming complex Ltd in the

western areas of Ukraine at the level of 7-8 %. The corresponding market share and the indisputable fact of belonging to the top 10 manufacturers of poultry market in Ukraine allows the manufacturer to play a considerable role in the region and to form correct sales policy.

For the last year poultry meat production in Ukraine has grown by 9 %, there are substantial grounds for further growth, one of which is considerable share of import in total amounts of poultry consumption in Ukraine. In 2010 the import of poultry meat to Ukraine made up 150,4 th. tons, as a rule it is poor quality meat of low price segment. In the process of economic growth and economy revival after the crisis the category of low price segment will become less popular; therefore the probability of import quotas redistribution in favor of national manufacturers is very high, and that means about 13,5 % of total amounts of consumption. Considering initiatives of profile associations concerning quoting and licensing of poultry meat imports, redistribution of import volumes in favor of manufacturers is very probable.

Low profitability of operations in the industry should be mentioned as negative tendency. According to the Union of Poultry Breeders of Ukraine cost price of poultry meat decreased in several times in January, 2011. In the first quarter the price increased to UAH 16 per 1 kg., that allows maintaining the profitability at the level of 5-7 %. When taking investment decisions on the bonds of the Issuer, investors should understand that poultry meat market in Ukraine is competitive, and consequently one of the characteristics of this market is limited profitability of the manufacturers.

Section 3. Analysis of Issuer's performance indicators

3.1. Financial strength analysis

In 2010 the liabilities of Hubyn battery farming complex Ltd have grown on 17,36 %, shareholders equity on 4,98 %, EBITDA on 5 %. The company, according to the Agency, remained overcapitalized. So, on the beginning of 2011 equity of the Company exceeded liabilities of the Issuer in 4,84 times. Also it is known that on the beginning of 2011 EBITDA on 46,66 % covered all the liabilities of the Company, including bank loans and accounts payable. The found level of 'EBITDA/liabilities' is high enough, especially considering the liquid nature of Issuer's products. The ratio EBITDA/liabilities of the Issuer with inclusion of planned loans amount is an estimate indicator as it does not account for EBITDA increase due to efficient use of borrowed means. However such estimate indicator at the level of 18,42% proves to the available financial strength even at the balance overloaded by loans in the amount of UAH 50 m.

Table 4

Analysis of financial strength indicators of Hubyn battery farming complex Ltd in 2009–2010

Indicators	2010	2009	Growth rate
Liabilities	32599	27777	17,36%
Equity	157643	150161	4,98%
EBITDA	15212	14487	5,00%
Equity/Liabilities	483,58%	540,59%	-
Net capital (Equity minus Liabilities) before planned volume of borrowings	250,00%	-	-
EBITDA/Liabilities	46,66%	52,15%	-
Estimate EBITDA/Liabilities including planned volume of borrowings *	18,42%	-	-
Estimate EBITDA/annual interest expenses servicing planned volume of borrowings *	184,39%	-	-

Source: Company data, RA Expert Rating calculations

Note: The estimate accounted for future borrowing in size of UAH 50 m and servicing expenses

The Agency draws attention to that when analyzing estimate indicators the investors should understand that the estimate value shown in the table 4, is the pessimistic scenario of events development, and the level of one of key indicators, EBITDA already upon the results of the first half of 2011 will depend exclusively on how fast and effectively the Issuer will invest the borrowed amount into the production. The definitive conclusion about the efficiency of borrowed means using can be made following 2011 results.

Current servicing by the Issuer of planned bonds issue interests is warranted by high volume of EBITDA and high value of EBITDA/planned level of interest expenses. By results of 2010 estimate ratio EBITDA/planned interest expenses makes 185 %, that is 2010 EBITDA covers 1,85 times the planned annual volume of interest expenses on bonds issue.

According to analytical service of Agency, namely the available reserve of financial strength, insignificant level of credit resources use and of accounts payable in the liabilities and substantial coverage by 2010 EBITDA of planned annual volume of interest expenses are characteristics indicative of high rating.

3.2. The analysis of business activity and efficiency

In 2010 the earnings of the Issuer grew on 22,01 % compared with 2009 and reached UAH 208 m level. Net income has grown on 16,4 %, and net profit has grown almost in three times. Earnings growth on 22 % is more than twice higher than average growth index in the industry. The Agency estimates this fact as positive, as it proves to the available trend of Issuer's share growth in the relevant market.

Issuer's ROS and ROE in 2009-2010 have been few percent less, than on the average in the industry according to UPU statistics. However this level of profitability was sufficient for generation of certain volume of EBITDA which size, according to Agency, allowed the Issuer to borrow about UAH 50 m in the market (*table 5*).

Таблиця 5

Analysis of performance indicators of Hubyn battery farming complex Ltd in 2009–2010.

Indicators	2010	2009	Growth rate
Sales income	207969	170450	22,01%
Net income	163847	140753	16,41%
Net profit	7482	2513	197,73%
EBIT	7315	7086	3,23%
EBITDA	15212	14487	5,00%
ROS	3,60%	1,47%	-
ROA	3,93%	1,41%	-
ROE	4,75%	1,67%	-

Source: Company data, calculations by RA Expert Rating

According to Hubyn battery farming complex Ltd development plan for 2011, the earnings from sales of goods are estimated at UAH 285,79 m, that is the plan provides 37% earnings growth in 2011. According to 2011 plan EBIT should grow to UAH 16,96 m, and EBITDA to UAH 37,3 m. That is during the 2011 the Hubyn battery farming complex plans to double EBIT and EBITDA. In case of realization of such plans the estimate ratio EBITDA/liabilities of the Company will increase to 45 % by the end of 2011 that raises the level of Issuer's financial strength.

3.3. Analysis of liquidity and liquid assets sources

The analysis of liquidity level of the Issuer indicates an insignificant decrease in certain indicators of liquidity, namely the ratio cash/current liabilities and total liabilities. However Issuer's liquidity level at the beginning of 2011 remains acceptable and sufficient for provision of expenses and settlement of liabilities. In 2010 the ratio cash/current liabilities decreased from 76,13 % to 26,83 % due to liabilities structure change, namely due to reduction of long-term bank loans. These changes did not actually essentially affected the readiness of the Issuer to perform expenses and settle liabilities (*table 6*).

Table 6

Analysis of liquidity indicators of Hubyn battery farming complex Ltd in 2009–2010.

Indicators	2010	2009	Growth rate
Cash and cash equivalents	7360	6973	5,55%
Current liabilities	27428	9159	17,36%
Total liabilities	32599	27777	5,55%
Cash and cash equivalents/ Current liabilities	26,83%	76,13%	-
Cash and cash equivalents/ Total liabilities	22,58%	25,10%	-

Source: Company data, calculations by RA Expert Rating

In 2010 Hubyn battery farming complex Ltd has increased the balance item 'Cash and cash equivalents' on 5,55% in proportion to liabilities growth. According to the Agency, this proves to the consistency of Company management decisions concerning liquidity level management.

Section 4. Credit history of the Company

On the beginning of 2011 the indebtedness of the Issuer on bank loans exceeded UAH 5 m, however the Issuer discloses in the public reporting the information on the largest bank loans for the amount of UAH 4,5 m. From them the current debts under line of credit of VTB bank makes UAH 3,5 m. As of the beginning of 2011 the VTB bank was the main creditor bank of Hubyn battery farming complex Ltd. There was an insignificant indebtedness under the lines of credit to JSCB Ukrsofsbank.

Research of Issuer's relations with banks has shown that the Issuer has adhered to financial discipline, carried out the obligations to financial institutions in due time and had no precedents of default.

As a whole, RA Expert-rating assesses as positive the credit history of the Issuer, however draws attention to that planned issue of bonds is the first public issue of securities. The Agency also draws attention to that all credit lines of banks are valid before end of the first half of the year 2011, that is should be paid back or prolonged in the summer of 2011. The amount due under the mentioned credit lines is insignificant and will not have a substantial impact on Issuer's financial condition whatever decision banks would take.

Table 7

Data on Hubyn battery farming complex Ltd debts under loans as of beginning of 2011

Credit instruments	No., date of conclusion	Loan issuer	Credited amount	Currency	Repayment terms and conditions	Outstanding amount due
Line of credit	Agreement on issuance of non-revolving credit line no. 070/06-114 of 14.07.2008 (with amendments and additions)	JSCB Ukrsofs bank	4065595,00	UAH	According to the agreement conditions repayment is performed on a monthly basis during the period October 2008 - June 2011 before the 5 th day of each month by equal installments in the amount of UAH 123000,00 each month, final repayment in the amount of UAH 6595,00 due before the 13.07.2011	621595,00
Line of credit	Agreement on issuance of non-revolving credit line no. 070/06-101 of 27.06.2008 (with amendments and additions)	JSCB Ukrsofs bank	2800000,00	UAH	According to the agreement conditions repayment is performed on a monthly basis during the period July 2009 - May 2011 before the 5 th day of each month by equal installments in the amount of UAH 80700,00 each month, final repayment in the amount of UAH 80600,00 due before the 26.06.2011.	403420,00
Line of credit	Credit agreement on issuance of non-revolving revocable credit line no. 9.01/08-KL (with amendments and additions)	PJSC VTB Bank	According to the conditions of credit agreement – 46700000,00, actually credited – 28454801,91	UAH	Repayment of the installment of UAH 14400000,00 has been made as follows: before 31.10.2008 – UAH 2500000,00, before 30.11.2008 – UAH 1925000,00, in the period December 2008 - June 2009 - UAH 1425000,00 every month Repayment of the installment of UAH 16700000,00 is made at UAH 439473,70 every month before the last day of the month, final repayment due on September 30 th , 2011	3507433,11

Section 5. The analysis of guarantor activity and of the probable external support by Issuer's shareholders

5.1. The guarantor

The guarantor under the guarantee agreement is VMP Ltd (USREOU code 36266887).

VMP Ltd is specialized on advanced technology processing of pork meat, production and sales of sausage products, meat packs. Presently VMP Ltd is one of leading manufacturers of sausage and meats in the Ukrainian market. The plant works exclusively with the domestic raw material, is equipped with modern meat processing equipment corresponding to all European standards.

The range of products includes more than 100 items. Production capacity includes:

- pig slaughtering and pork meat processing - 353 tons per week;
- packed meat production - 104 tons per weeks;
- production of sausages and smoked meats - 375 tons per week.

Products by VMP Ltd :

- pork semi-carasses;
- frozen and chilled byproducts ;
- cooked sausages and frankfurters;
- cooked smoked and semi-smoked sausages;
- smoked meat varieties;
- semi finished meat products.

The enterprise continuously expands the assortment of products. Especial attention is given to extension of traditional assortment of higher price segment. VMP Ltd constantly increases volumes of meat processing and production of finished sausage and smoked products. The used packaging allows to preserve freshness and quality of the products, to extend validity term.

Annual designed capacity of company facilities are for production of 19,5 thousand tons of sausage products and smoked meats, and also near 22 thousand tons of chilled pork meat and by-products.

Presently the total number of sale outlets across Ukraine wherein the products of the enterprise are sold, makes about 5,1 thousand. The enterprise develops dynamically, investments in production and sales processes are constantly performed. VMP Ltd sales finished goods under trademarks: 'Volynproduct', 'Volynska' and 'Ukrainska Svynyna'. Sausages and meats of VMP Ltd are available in all the regions of Ukraine.

The analysis of guarantor accountings has shown versatile tendencies. VMP Ltd had insignificant shareholders equity which as of the beginning of 2011 was only UAH 1,196 m. The Company also had insignificant volume of main assets. According to analytical service of the Agency, the guarantor had no sufficient equity available to guarantee issue of bonds on UAH 50 m. However, VMP Ltd, same as the Issuer, worked in a liquid segment of the market. Along that the Guarantor has shown confident growth of revenue for the last 2 years having raised it in 2010 to UAH 202,5 m, that in 4 times exceeds the amount of bonds issue.

Table 8

Analysis of key performance indicators of VMP Ltd in 2009-2010

Indicators	2010	2009	Growth rate
Balance sheet figures:			
Assets	29655	14787	100,55%
Fixed assets residual value	58	-	-
Fixed assets initial value	62	-	-
Receivables	13899	6730	106,52%
Liabilities	28458	15561	82,88%
Total current liabilities (short term bank loans excluded)	28210	15560	81,30%
Shareholders equity	1196	-774	-254,52%
Authorized capital	1061	1061	-
Financial results:			
Sales income	202469	151576	33,58%
Net income	163422	123116	32,74%
Gross revenue	12277	1876	554,42%
EBIT	3077	-1083	384,12%
Net profit	1666	-1320	226,21%
Estimate indicators:			
ROS	0,82%	-0,87%	-
ROA	5,62%	-8,93%	-
ROE	139,30%	-	-

Source: Company data, calculations by RA Expert Rating

Availability at the Issuer of the Guarantor in the format of the Company which formally belongs to the same business group as Issuer, reduces credit risks of Issuer's bonds issue. However investors when analyzing the role of the Guarantor should understand that VMP Ltd does not own property in the amount sufficient for provision of guarantee for UAH 50 m, nevertheless it generates substantial revenue which in 4 times exceeds issue amount. Also the Agency reminds that in Ukraine guarantee institute practically does not work, instead there are a lot of precedents in the market when court rulings allowed guarantors to escape executing obligations under defaulted issues. For this reason when assigning credit rating to the planned issue of bonds the Agency relied mainly on the analysis of Issuer's activity, considering availability of guarantor as formal but positive feature.

5.2. Founders of the Issuer and probability of external support.

Founders of the Company with over 10% of authorized capital:

- **Martinyak Serhiy Vasilievych** - 73,33 %, the citizen of Ukraine, the passport of the citizen of Ukraine series AC no 208083, issued on April, 11th, 1997 by Lutsk MU UMVS of Ukraine in Volyn region, residence address: 64830, Margonin, Wielkopolskie province, Republic of Poland .

- **Gorlach Serhiy Oleksandrovych** - 20,44 %, the citizen of Belarus, passport series MP no. 2329162, issued on August, 30th, 2007 by the central RUVS of Minsk, residence address: Minsk, Belarus.

The analytical service of RA Expert-rating believes that natural persons having a substantial share in the authorized capital of Hubyn battery farming complex Ltd cannot provide an identifiable and measurable essential external support to the Issuer. Therefore the Agency identifies the probability of substantial external support by shareholders as not specified.

However the Agro-Industrial Group Pan Kurchak wherein belongs the Issuer, plans to re-structure the Group into a holding company before the end of 2012 and to attract capital by initial public offering at Warsaw Stock Exchange. Agro-Industrial Group Pan Kurchak informs on the relevant intentions through the rating report of the Agency and the official notice on rating assignment. This step of management will allow in the long term to raise credit rating of the Issuer as the Company will always have access through the parent holding to the open capital market on WSE. As a whole, the Agency assesses positively the intentions of Agro-Industrial Group Pan Kurchak to carry out IPO at the Warsaw Stock Exchange.

Section 6. Summary of risks in company activity

On April, 14th, 2011 at the meeting of rating committee the RA Expert-Rating decided on assignment of issuer credit rating to the planned issue of bonds of Limited liability company Hubyn battery farming complex (USREU code 31603002) at the level **uaA**. The separate debt instrument with the rating **uaA** is characterized by high credit status compared with other Ukrainian borrowers or debt instruments. Credit status level is sensitive to influence of adverse commercial, financial and economic conditions. The rating has been assigned according to the scale approved by the Resolution of the Cabinet of Ukraine no. 665 of April, 26th, 2007.

Making decision on assignment of the rating at investment level, the rating committee of RA Expert-rating Ltd was guided by the following conclusions:

1. Hubyn battery farming complex Ltd, incorporated in October, 2001 has considerable production potential and appreciable market share across the nation. Presently Hubyn battery farming complex Ltd is one of the largest units of the Agro-Industrial group of enterprises 'Pan Kurchak', a vertically integrated business group specializing on production and sales of foods. In 2010 the Issuer soled 13177,7 tons of finished goods, the Company earnings for 2010 have made UAH 208 m. The Agency assessed the share of the Issuer in total volume of poultry meat production across the nation as 1,2 %, and in the regional scale as 7-8 %.

2. According to the Agency Hubyn battery farming complex Ltd maintains sufficient reserve of financial strength. On the beginning of 2011 equity exceeded liabilities in 4,84 times and EBITDA/liabilities ratio was 46,66%. Also EBITDA in 2010 covered 1,85 times the planned annual volume of interest expenses on planned bonds issue. For 2011 the planned volume of Issuer's earnings will make UAH 285,79 m., EBITDA will grow to UAH 37,3 m. Under adherence to planned indicators EBITDS/liabilities ratio of the Issuer will make approximately 46%, that is will remain as planned at the same level as in relation to borrowings.

3. Hubyn battery farming complex Ltd maintains sufficient level of liquidity, has a relevant credit history, continues cooperation as borrower with such banks as VTB bank and Ukrspotsbank. During 2010 the indebtedness to banks reduced from UAH 18,6 to 5,2 m. Reduction of the level of banks participation in the liabilities of the Issuer is also a positive tendency.

4. According to Agency, the guarantor of planned issue of bonds VMP Ltd has no sufficient available equity to guarantee bonds on UAH 50 m. However, VMP Ltd, which is specialized on processing of pork meat and production of sausage has generated UAH 202,5 m of earnings in 2010. Availability of the guarantor on bonds issue, specialized on production of liquid goods, should be perceived as positive but not definitive factor when taking investment decisions.

5. The analytical service of RA Expert-rating believes that natural persons having substantial share in the authorized capital of Hubyn battery farming complex Ltd will not be able to provide an identifiable and measurable essential external support to the Issuer. However the Agro-Industrial Group Pan Kurchak wherein belongs the Issuer, plans to re-structure the Group into a holding company before the end of 2012 and to attract capital by initial public offering at Warsaw Stock Exchange. Agro-Industrial Group Pan Kurchak informs on the relevant intentions through the rating report of Agency and the official notice on rating assignment. This step of management will allow in the long term to raise credit rating of the Issuer as the Company will always have access through the parent holding to the open capital market on WSE.

Appendix A

Use limitations of the rating report

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Taking into consideration the results of company or security credit rating estimation, it should be understood that:

1. At rating estimation factors are considered which can positively or negatively affect company stability. Therefore, Expert Rating RA ltd evaluates level of resistibility of the company to adverse influence factors. For the companies the estimation is conducted according to the national scale in compliance with the scale approved by the Resolution of the Cabinet of Ukraine no 665 of April, 26th in 2007. The Agency independently determines the correspondence between international and national scales, a rating on the international scale of agency is assigned solely on demand of the client.

2. The information provided in the rating report which source is the client or the regulator, can slightly differ from the public information available in other sources through differences in system of accounting or methodology of indicators calculation.

3. The information provided in this report on foreign shareholders of the company is given in the currency used in the official annual report of the shareholder company. When comparing such financial information with the data of the company or of similar foreign companies the difference in systems of accounting and accounting policy should be always considered.

Table A

National rating scale. Long-term credit ratings (more than one year)*

Rating	Rating interpretation
uaAAA	The borrower or a debt instrument with uaAAA rating is characterized by highest credit status compared to other Ukrainian borrowers or debt instruments
uaAA	The borrower or a debt instrument with uaAA rating is characterized by very high credit status compared to other Ukrainian borrowers or debt instruments
uaA	The borrower or a debt instrument with uaA rating is characterized by high credit status compared to other Ukrainian borrowers or debt instruments Credit status level is sensitive to influence of adverse commercial, financial and economic factors
uaBBB	The borrower or a debt instrument with uaBBB rating is characterized by sufficient credit status compared to other Ukrainian borrowers or debt instruments. Credit status level depends upon influence of adverse commercial, financial and economic factors
uaBB	The borrower or a debt instrument with uaBB rating is characterized by credit status lower than sufficient one compared to other Ukrainian borrowers or debt instruments. There is high dependence of status level upon influence of adverse commercial, financial and economic factors.
uaB	The borrower or a debt instrument with uaB rating is characterized by low credit status compared to other Ukrainian borrowers or debt instruments. There is very high dependence of credit status level upon influence of adverse commercial, financial and economic factors.
uaCCC	The borrower or a debt instrument with uaCCC rating is characterized by very low credit status compared to other Ukrainian borrowers or debt instruments. Potential default is probable.
uaCC	The borrower or a debt instrument with uaCC rating is characterized by high default probability
uaC	The borrower is approaching default
uaD	Default status. Payment of interest and of principal amount under borrower's liabilities has been suspended without reaching agreement with creditors concerning debt re-structuring before maturity date.

"-" or "+" are intermediate categories of rating related to main categories.

* — according to the scale approved by the Resolution of the Cabinet no 665 of April 26, 2007

The present appendix is an integral part of the rating report